

**United States Military Academy
West Point, New York 10996**

USMA Study of the Residential Communities Initiative (RCI) Portfolio and Asset Management (PAM)

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Executive Summary

“Best value means the Army gets the best possible house for the money. This translates to better housing and quality of life for soldiers, as well as cost savings to the army by relinquishing management and maintenance responsibilities to the partner. This allows the Army to get out of the housing business and free up resources to focus on mission-critical areas.” (Senior Army Leader)

1. Purpose of Study

In April 2005, the Acting Assistant Secretary of the Army for Installations and Environment (ASA(I&E)), Mr. Geoffrey Prosch, asked the United States Military Academy (USMA) to conduct a functional evaluation of the Residential Communities Initiative (RCI) Portfolio and Asset Management (PAM) program and provide an independent assessment of the adequacy of the Army's RCI PAM program in achieving its intended objectives.

2. Study Summary: Bottom-Line Up Front

The RCI PAM program is an innovative Army privatization program that is properly structured to yield substantial benefits for both the Army and the Partners. The RCI PAM program enables Partners to leverage Army and Partner investments and apply commercial portfolio management and real estate development best practices to deliver best value to Army stakeholders. The Partners receive a fair and reasonable profit for providing quality residential communities with dramatically improved service and maintenance support for Army soldiers and their families unattainable under traditional MILCON programs.

The RCI PAM process is an integrated system of oversight and management whose strongly top-driven approach has insured success to date. A singularly critical component of this approach is the portfolio level's constant effort to facilitate a free flow of timely and accurate information between portfolio level and installation level agencies and across the span of installation projects.

The RCI PAM process is not without its challenges. The dynamically evolving nature of the environment within which the RCI PAM program resides (e.g., BRAC, force transformation, recruiting challenges, federal employee turnover, OPTEMPO, unit deployment, market responses by off-post commercial housing, etc.) dictates that the RCI PAM program must continue to adapt in concert with this environment while maintaining the fundamental delineation of roles and responsibilities that permit productive leveraging of both government and Partner core competencies. Defining, developing, and sustaining the proper level of technical and management skills for government personnel involved in RCI real estate development oversight activities should continue to be one of the top priorities of the program. Identifying the proper government – Partner relationships that should exist for the long term health of the projects and addressing these in comparison to the traditional contractor – government culture that has provided significant safety against contra-productive activities by the unscrupulous should continue to be a high priority of the program as well.

In order for the RCI PAM program to continue to provide best value, actions should be taken to sustain and strengthen those activities that have been identified as critical drivers of

success for the program: centralized management, incentivized Partner performance, tailored CDMP structuring, exploiting commercial best practices, focused use of contractual support to government teams, training and education of PAM team members; to adjust those dimensions of the RCI PAM process that appear to offer opportunities for enhancement: professional development of PAM team members, education of SJA in real estate law, creative rent concessions, tailored conflict of interest guidelines, alternative financial performance summary charting; and to reduce any identified risks to continued success over the 50-year planning horizon of the program.

The RCI program is a unique venture and is establishing a new standard of best practice in community development both in the Government and civilian sectors. It is an outstanding program that is achieving its' objective of providing quality homes to soldiers and their families. To maintain the value of the program, continual oversight should be given to ensuring value is maintained and increased across several domains. The leadership of this highly visible program should be commended on their valuable accomplishments in such a short time. Their continued attention and support is needed to respond to the evolving demands of the program and to ensure the program continues to deliver value to the Army and its most precious commodity – soldiers and their families.

The success that the RCI PAM program enjoys is due in a very large part to the centralized and talented government management oversight that is currently in-place. Under this structure, program managers have maximized the flow of knowledge between all government elements, thereby facilitating informed decision-making at all contact points in the system with the numerous civilian partner agencies. The cross-functional continuity afforded by this organizational structure goes a long way towards guaranteeing that the government will achieve best value amidst continued program evolution, changes in participating civilian companies, decentralized incentive fee review and CDMP re-negotiations. Significant changes to this management structure should only be undertaken, if at all, after a careful and cautious examination of their impact on the host of core success elements illuminated in this study.

3. Assessment Tasks

The study team was asked to assess four specific areas of interest and provide observations, conclusions, and recommendations as to how the RCI PAM program might be enhanced within the context of each, as well as in the aggregate. The four tasks defining this study are:

- **Best Value.** Assess whether the processes within RCI ensure the government gets the best value.
- **Best Practices.** Analyze the PAM process in the context of best practices compared to Real Estate Portfolio Management in the private sector.
- **Training.** Evaluate whether the asset or portfolio management teams are adequately trained and able to perform the functions as described in the ASA(I&E) RCI PAM Handbook.
- **Conflict of Interest.** Determine whether there are sufficient safeguards in all aspects and across all phases of the PAM process to prevent conflicts of interest.

A fifth task was added later in the process to assess economical best value and analyzed in conjunction with Best Value.

- **Financial Analysis.** Assess whether the processes within RCI PAM yield the best economical value.

4. Methodology

In conducting our assessment of the RCI PAM program and its' processes, the study team used the following analytical approaches:

- **Stakeholder Analysis & Data Acquisition**
 - o **Phase I.** The study team attended a two-week educational and training session on RCI PAM at the ASA(I&E) RCI Program Office. Several team members also attended the RCI Lessons Learned conference held 6-10 June 2005 in Tampa, Florida.
 - o **Phase II.** The study team then identified major topical areas underlying the various components of the RCI PAM program and developed a series of survey questions that focused on exposing elements of the RCI PAM process that were directly relevant to the tasks. The questions targeted all aspects and phases of the RCI PAM program.
 - Pre CDMP (source selection RFQ, partner selection)
 - CDMP development (pre-transition)
 - Transition
 - PAM (post-transition sustained project operations)
 - o **Phase III.** Over the course of six months, the study team conducted a series of on-site interviews at a subset of Army installations for the purpose of gathering multi-level system-wide perspectives and on-site data concerning each task. The installations were chosen in coordination with the ASA(I&E) RCI Program Office to capture a reasonable representation across two major factors: size and scope of the installation project, and location within an IMA region. The subsequent interviewees were then identified by their associated role within the RCI PAM program at installation level and portfolio level, or because of their functional relationship to large-scale commercial real estate development and management.
- **Benchmarking.** The study team interviewed six RCI Partner corporate organizations and several industry organizations in the private sector to acquire knowledge and information on current best practices pertinent to the tasks.
- **Financial Analysis.** The study team interviewed lenders, financial institutions, and insurance and commercial bond rating companies to perform a comparative assessment of the RCI deal structure.
- **Interview Data Analysis.** The study team performed a qualitative analysis on interview responses by first screening for relevancy to the tasks, formed conclusions based on the results in comparison with known facts as represented by RCI PAM process and legal

documents including federal statutes and Federal Acquisition Regulations (FAR) guidelines, and where appropriate developed recommendations concerning process activities to sustain or improve, as required.

5. Summary

The results of the assessment of the RCI PAM program and its' processes in the context of 1) Conflict of Interest, 2) Best Value, 3) Financial Analysis, 4) Best Practices, and 5) Education and Training are summarized below.

- **Conflict of Interest**
 - o No apparent conflicts of interest currently exist in the RCI PAM process
 - o Provide policy guidelines and responsibilities for conflict of interest during PAM period
 - o Maintain intensive inter-level communications to detect and prevent conflicts of interest
- **Best Value**
 - o Multiple perspectives of best value define best value factors
 - o Continue to manage RCI as a privatization program tailored to the unique needs to each installation
- **Financial Analysis**
 - o Well-designed business model exist within the RCI PAM program
 - o Need to remain cognizant of risk
- **Best Practices**
 - o The program has done well integrating best practices at every level, as well as in developing new approaches to address unique aspects of RCI PAM and to protect Army interests
 - o Continue to use third parties to augment performance measuring & monitoring, but develop skill sets and experience within program to enhance oversight roles and to further facilitate a "best practices" approach
- **Education & Training**
 - o Provide the "right" training to portfolio and asset level team members
 - o Incorporate best practices into education and training program
 - o Add education and training as a portfolio measurement item for portfolio and asset level team members

Acknowledgements

The USMA study team consisted of the following:

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The USMA study team would like to thank the many Garrison Commanders, Army and Partner portfolio and asset management team members, IMA Region Directors and staff, HQ IMA leaders and staff, and HQDA leaders that provided their time and expertise in this effort.

Disclaimer

The views expressed in this report are those of the authors, and/or stakeholders interviewed, and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

Questions

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Chapter 1. Problem

1.1 Background

In 1992-1993, the Army decided that housing was not a core competency and decided to get out of housing business. In 1996, legislation allowed the Army to utilize private sector creativity, expertise, innovation and capital; to build to local standards. In 1996-1997, Army Capital Ventures Initiative began the evolution of transforming military housing into quality homes. The goal was to eliminate inadequate on-post housing, eliminate the deficit, and establish a field-driven program. The Army Capital Ventures Initiative was replaced with Residential Communities Initiative (RCI) Portfolio and Assessment Management (PAM) program beginning in 1998.

The vision has remained the same under RCI PAM – “Quality residential communities for Army families on post.” The goal of this program is to eliminate inadequate family housing in the U.S. in conjunction with Military Construction (MILCON) and Basic for Allowance Housing (BAH) increases. The objectives of the RCI PAM program are outlined below.

- Eliminate revitalization/deficit backlogs
- Leverage assets/scarcie funds
- Attract first class partners
- Obtain private sector expertise, creativity, innovation, and capital
- Ensure reasonable profits
- Establish incentive based fees
- Encourage partnerships with local (large/small) businesses
- Protect Army/Soldier interests with a PAM Program

The Army RCI PAM program uses authorities provided in the Military Housing Privatization Initiatives Act (P.L. 104-106, Section 2801) to privatize military family housing. Private sector developers are selected through a Request for Qualifications procurement process for purposes of improving military family housing at Army installations. The Army leases land and convey family housing assets to a legal entity comprised of the partner and the Army for a period of fifty years subject to renewal at the end of the fifty year period. The partner constructs, renovates, repairs, maintains, and operates housing and related residential community facilities through separate service agreements with the partnership. The predominant sources of income for the project is the revenue stream from the BAH of soldiers occupying family housing units conveyed to the partnership.

The Army selects a developer by awarding a contract to prepare a Community Development and Management Plan (CDMP) for the installation. The CDMP consists of a development plan, operations plan, and finance plan. It lays out a blueprint for development and management of family housing at the installation, and defines the relationship between the government and the developer for the fifty year term of the project. After approval of the CDMP by HQDA and OSD, the plan is submitted to the Congressional Defense sub-committees for a forty-five day review period. Following congressional approval, the Army and partner negotiate the final legal

and business agreements and ground lease terms; the partner and financial institutions agree on loan terms and conditions, and all parties conduct a real estate and finance closing. Approximately sixty to ninety days after congressional approval, the partner assumes operational responsibility.

Following the transition to privatization, the Army maintains oversight of the program to protect the government's interests and ensure families receive adequate housing. The Army employs a consultant, Jones Lang LaSalle Americas, Inc. (JLL), as primary advisor to the Army from project conception to implementation. JLL assist the Army in providing oversight of the RCI PAM program. JLL specifically provides real estate and financial assistance to the Army in all phases of the program, including negotiating the CDMP and competing the commercial loan. In addition, JLL has assisted in designing the PAM process for long-term, post-privatization project oversight, and continues to provide data collection, analyses, and a broad range of advice and assistance in oversight of the portfolio of privatized housing. The PAM process tracks compliance with the CDMPs and legal business documents, by monitoring plans for construction and development, operations and maintenance, and property management. The PAM process also examines performance factors to assess the financial health and stability of each project.

1.2 Purpose and Task of Study

1.2.1 Purpose

RCI PAM is a new and unique program and one that is very complex. As structured, the long-term health cannot be accurately assessed at this point; however there are short term assessments that can be made that may serve as long-term performance indicators. In April 2005, the Acting Assistant Secretary of the Army for Installations and Environment (ASA(I&E)), Mr. Geoffrey Prosch, asked the United States Military Academy (USMA) to conduct a functional evaluation of the RCI PAM program. This study analyzes several factors and provides conclusions and recommendations to promote the long-term viability of the program

1.2.2 Task

The task given by Mr. Prosch was to provide an independent assessment of the adequacy of the Army's RCI PAM process and program in achieving its intended objectives. The specific objectives that we were asked to assess were divided into four task areas and are stated below.

- Task 1: To determine whether there are sufficient safeguards in all aspects and across all phases of the RCI PAM process to prevent conflicts of interest
- Task 2: To assess whether the processes within RCI PAM ensure the government gets the best value
- Task 3. To analyze the RCI PAM process in the context of best practices compared to Real Estate Portfolio Management in the private sector
- Task 4. To evaluate whether the asset or portfolio management teams are adequately trained and able to perform the functions as described in the ASA (I&E) RCI PAM Handbook

A fifth task was later added to the study to assess economical best value and was analyzed in conjunction with Task 2.

- Task 5. Assess whether the processes within RCI PAM yield the best economical value

Each task has been divided into specific elements and will be covered in greater detail in the chapters that follow. Chapter 2 provides an overview of the study plan. Chapter 3 provides an overview of stakeholder participation. Chapter 4 presents an analysis of Task 1. Chapter 5 presents an analysis of Task 2 and Task 5. Chapter 6 presents an analysis of Task 3. Chapter 7 presents an analysis of 4. A project summary follows.

Chapter 2. Study Methodology and Project Organization

2.1 Overview

The methodology to address the five tasks was defined by four phases. The four phases were accomplished in an order deemed appropriate to accomplish the stated purpose during the period.

Figure 2.1 provides a description of the study methodology. Phase One, Phase Two, and Phase Three are captured in Figure 2.1. Phase Four represents the final brief and report.

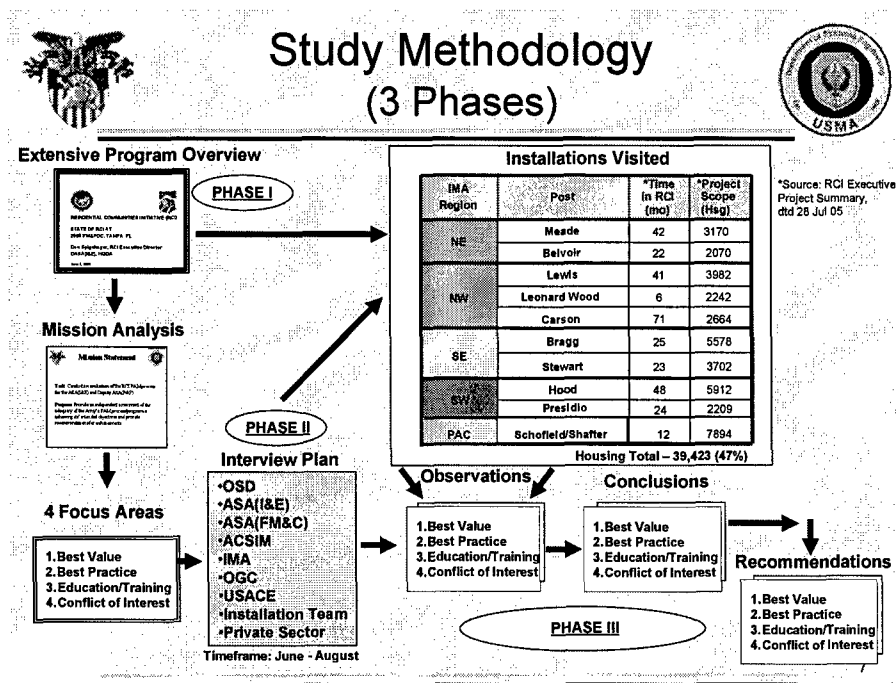


Figure 2.1 Study Methodology

2.1.1 Phase One. RCI Program Overview

In Phase One, the study team conducted an extensive background research of the tasks identified in Chapter 1. The research began with obtaining a full understanding of the RCI PAM Program from the ASA (I&E) RCI Program Office personnel. Additionally, several RCI PAM classes and conferences were attended to add to our knowledge of the RCI PAM Program.

To specifically prepare for the analysis of Task 3, the study team researched private and public Sector organizations that have embarked on similar privatization initiatives and analyzed their approach to Portfolio and Asset Management. The results of these analyses are discussed in Chapter 5.

2.1.2 Phase Two. Stakeholder Analysis

In Phase Two, the study team conducted interviews with individuals involved in the RCI PAM program and with other individuals who could provide insight on the four tasks. The objectives of these interviews were to learn more about each participant's role in the RCI PAM program with the objective of determining if the RCI PAM processes are functioning as designed. These interviews were conducted with asset level personnel, the partners in the program, the third party participants in the oversight process, and key financial institutions that loan money to the projects. The individuals interviewed in this study are identified in Chapter 3. Specific questions related to the initial four tasks were developed by the USMA study team.

2.1.3 Phase Three. Observations, Conclusions, and Recommendations

In Phase Three, the study team binned results from Phase Two into a list of observations, conclusions, and recommendations. The observations, conclusions, and recommendations were developed throughout the process and presented to the ASA (I&E) RCI Program Office and senior Army leaders through periodic updates in the form of Interim Progress Reviews. The feedback gained from the ASA and senior Army leaders helped to provide focus on the project's overall objective.

2.1.4 Phase Four. Final Brief and Project Report

Phase Four culminated the study with a final presentation to senior Army leaders and a project report to the ASA(I&E) RCI Program Office. The study team provided recommendations on actions that can be taken to sustain the viability of the RCI PAM program.

2.2 Project Team Organization and Structure

The project team consisted of seven primary team members. LTC(P) Robert Powell served as the Project Manager while Dr. Gregory Parnell served as the Senior Analyst. Both are faculty members in the Department of Systems Engineering. Additional team members are listed below.

- Dr. Patrick Driscoll, Department of Systems Engineering
- LTC Dan Evans, Department of Social Science
- MAJ Greg Boylan, Department of Systems Engineering
- Mrs. Margaret Moten, Department of Social Science
- CPT Thaddeus Underwood, Department of Social Science

They are shown in Figure 2.2. Individuals that indirectly supported the project are listed below.

- COL Michael Meese, Department of Social Science
- LTC Michael Kwinn, Department of Systems Engineering
- MAJ Grant Martin, Department of Systems Engineering
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Figure 2.2 Primary Project Team Members

With the exception of Task 2, members of the study team were each assigned an individual task to analyze. Task 2 was analyzed by four team members: one from the Department of Systems Engineering and three from the Department of Social Science. The economic expertise of the individuals within the Department of Social Science was critical to the analysis of this task.

Chapter 3. Stakeholder Analysis and Data Collection

3.1 Stakeholder Analysis

To accomplish this purpose, stakeholders relevant to the five tasks had to be identified. The individuals interviewed were chosen in coordination with ASA(I&E) RCI Program Office based on the prospective interviewees role in the RCI PAM program either at the installation or portfolio level. The stakeholder list is shown in Table 3.1. Table 3.1 list interviewees and task association. The questions supporting the tasks formed the basis for semi-structured, non-attribution interviews across a sufficient sample of representatives within 1) the Limited Liability Corporation (LLC), 2) the Government Partner (representing civilian and military Federal employees), 3) the Managing Partner (representing a civilian contractor obtained through a formal Source Selection Request for Qualification (RFQ) process, 4) major Sub-contractors delivering critical services to the LLC (representing civilian contractors hired directly by the LLC without a formal Source Selection RFQ process), and 5) the Lender (representing the major civilian financial vested interest in the program). This was the common pool of interviewees used for the USMA study in total. No attempt was made to guide an interviewee's response other than to clarify the questions being asked or to follow up with more specific questions intended to help team members more clearly understand the interviewees' responses.

The installations visited were also chosen in coordination with the ASA(I&E) RCI Program Office. The decision of those installations selected was based on several criteria: 1) small in scope, 2) large in scope, 3) privatized installation, and 4) installation currently in the privatization process. The installations selected are shown in Figure 3.1.

Figure 3.2 depicts a summary of interviews conducted, installations visited, and Interim Progress Reviews that provided additional focus on the study.

3.2 Data Methodology

A total of seventy-two interviews were conducted between June and August. The interviews were intended to be conducted in pairs. One team member acted as the interviewer while the other acted as the scribe. During the interviews, interviewees described their assessment of the RCI PAM program as it related to the specific question asked. The identity of each interviewee and their responses has been kept separate to protect the confidentiality of each interviewee.

Responses to the questions were collected, grouped by relevancy with each of the questions of interest, and sanitized for non-attribution. These form the basis for each observation noted in the chapters that follow. The observations were analyzed and formed the basis for the conclusions and recommendations.

Table 3.1 Stakeholder Matrix

Questions	Task 1						Task 2							Task 3					Task 4		
	Conflict of Interest						Best Value							Best Practices					Training		
Interviewees	1a	1b	1c	1d	1e	1f	2a	2b	2c	2d	2e	2f	2g	3a	3b	3c	3d	3e	4a	4b	4c/d
OASAI-RCI																					
Mr. Spigelmeyer, RCI Exec. Director	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Sandy Clark, Portfolio Manager	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Barry Scribner, JLL Senior Representative	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
USACE-Real Estate - Dillard Horton, Kathleen Germano	x	x	x	x	x	x	x	x	x	x	x	x	x		x		x		x	x	x
Office of General Counsel																					
Mark Connor and Robert Davenport	x	x	x	x	x	x	x	x	x	x	x	x	x		x		x		x	x	x
USACE Contracting for RCI																					
Jim Rich, Matt Keiser & Bill Myslewic	x	x	x	x	x	x	x	x	x	x	x	x	x								
HSG Privatization Trng & Resident Surveys																					
Jon Moore																			x	x	x
RCI Project Reviews:																					
Installations (Projects): Carson; Hood; Lewis; Meade;																					
Monterey; Bragg; Stewart, Shafter																					
RCI Portfolio Manager							x	x	x	x	x	x	x		x		x		x	x	x
JLL Portfolio Analyst							x	x	x	x	x	x	x		x		x		x	x	x
Garrison Commanders							x	x	x	x	x	x	x		x		x		x	x	x
GCSM							x	x	x	x	x	x	x						x	x	x
Asset managers							x	x	x	x	x	x	x		x		x		x	x	x
Asset Management Team							x	x	x	x	x	x	x		x		x		x	x	x
SJA	x	x	x	x	x	x	x	x	x	x	x	x	x		x		x		x	x	x
Project Partner							x	x	x	x	x	x	x		x		x		x	x	x
Third Party QA/QC & Financial Auditor										x	x	x			x		x				
Lender																					
Project Lender:							x	x	x	x	x	x	x		x		x				
Dan Ray, GMAC																					
Wendell Gaertner, Bank of America																					
Private Sector Perspective																					
LaSalle Investment Management														x		x					
Clark Realty - Cleve Johnson							x	x	x	x	x	x	x		x				x	x	x
GMH - Bruce Robinson							x	x	x	x	x	x	x		x				x	x	x
Picerne - Chris Bicho							x	x	x	x	x	x	x		x				x	x	x
Actus Lend Lease - Marc Sierra							x	x	x	x	x	x	x		x				x	x	x
EQR - Kimberlee Schreiber							x	x	x	x	x	x	x		x				x	x	x
OSD - Housing & Competitive Sourcing Office																					
Joe Sikes & Bob Helwig	x	x	x	x	x	x	x	x	x				x								
ACSIM																					
Ms. Jan Menig, DACSIM	x	x	x	x	x	x	x	x	x	x	x	x	x				x				
OASAFM&C																					
Sharon Weinhold & Jim Anderholm	x	x	x	x	x	x	x	x	x	x	x	x	x		x		x				
IMA Regional Directors																					
Diane Devens & Stan Sokoloski	x	x	x	x	x	x	x	x	x	x	x	x	x				x		x	x	x
IMA Regional Representatives																					
Caroline McCown & Steve Arbogast							x	x	x	x	x	x	x				x		x	x	x

Chapter 4. Conflict of Interest

4.1 Overview

This chapter outlines the analysis of Task 1, which is defined as “To determine whether there are sufficient safeguards in all aspects and across all phases of the RCI PAM process to prevent conflicts of interest.” A background on the nature of the task is presented followed by a discussion of the specific method of analysis used to arrive at the conclusions and recommendations that are to be discussed.

4.1.1 Conflict of Interest: Motivation and Perspective

The Army privatization program exists within a dynamically evolving environment whose perturbations have varying degrees of impact on the future success of the program. The 2005 Base Re-alignment and Closure (BRAC) decisions, force transformation initiatives, recruiting challenges, federal employee turnover, sustained OPTEMPO related to the Global War on Terror (GWOT), interest rate fluctuations, BAH adjustments, unit deployment cycles, and market responses by off-post commercial housing competing with on-post projects are just a few of the current drivers that provoke a myriad of operational decisions at all levels. This complexity, coupled with the unique LLC structures established to administer the program at each installation, presents an interesting challenge for the program with regards to preventing potential conflicts of interest among program entities.

At its most basic level, the interaction and interdependency of the formal organizational elements charged with administering the program and its activities defines a system.¹ When faced with complexity of the type described, healthy systems survive and flourish by relying on a consistent and stable set of processes that guide the manner in which components should react to change. Stable processes are frequently adaptable in their own right, each possessing imbedded audit and review activities intended to maintain the effectiveness of the process and its intended outcome.

Establishing policy is a means of formalizing these processes for organizations so that decentralized decisions have a high likelihood of supporting what is best for the overall system. Absent guidance, human system elements tend to act in their best own interest, focusing instead on achieving locally optimal affects that can inadvertently undermine the system-level common good.

The RCI PAM program is the Army’s answer to supplying program guidance in the manner described. RCI PAM imposes stable and consistent structure on a large set of critical oversight and management activities for the Army housing privatization program. The presence of conflicts of interest (COI) among PAM principle components would be a strong indicator that the overall system is transitioning into an undesirable, unhealthy system state.

Consequently, examining the PAM process for potential COI areas, the occurrence of COI incidents, and the adequacy of structural safeguards against COI within the PAM process (see Table 4.1) are logically sound actions whose results translate directly into conclusive diagnostics concerning the health of the overall Army privatization system. This portion of the report

describes the results of the USMA study team's actions in this regard. The green cells reflect safeguards that are functioning well while the amber cells reflect safeguards that require continual oversight.

Table 4.1 Major Structural COI Safeguards

COI Relationships	LLC	Government Partner	Managing Partner	Sub-contractor	Lender
LLC		<ul style="list-style-type: none"> • Real Prop. Inventory limitations • LLC counsel • Lender audit 	<ul style="list-style-type: none"> • Ops Agreement • Ground lease • CDMP • Monthly dashboard • Quarterly reports • JLL oversight 	<ul style="list-style-type: none"> • PAM team oversight • Monthly dashboard • JLL oversight 	<ul style="list-style-type: none"> • Lending regulations • DA-RCI oversight • Audits
Government Partner		<ul style="list-style-type: none"> • Annual ethics TNG • AR 600-50 TNG • IPMP TNG • Installation SJA • Congressional review 	<ul style="list-style-type: none"> • 18 U.S.C. §208 • FAR Vol. 1, 3.101 • OGC SJA • Ground Lease • Ops Agreement • CDMP • DA-RCI annual review • IPMP TNG • RFQ, SSAC 	<ul style="list-style-type: none"> • 18 U.S.C. §208 • FAR Vol. 1, 3.101 • PAM Handbook • Ops Agreement • DA-RCI annual review • IPMP TNG 	<ul style="list-style-type: none"> • AAA, GAO, Independent Audits
Managing Partner			<ul style="list-style-type: none"> • OGC • DA-RCI oversight 	<ul style="list-style-type: none"> • Operating Agreement • CDMP • JLL oversight 	<ul style="list-style-type: none"> • AAA, GAO, Independent Audits
Sub-contractor				<ul style="list-style-type: none"> • DA-RCI oversight • Managing Partner 	<ul style="list-style-type: none"> • AAA, GAO, Independent Audits

4.1.2 COI and RCI PAM Entities

The five principle PAM entities of interest discussed in Chapter 3 engage in oversight activities and operational decision-making at various times throughout the program lifecycle. The working relationships between these five entities define the dynamics within which potential COI issues could arise in the privatization program. The majority of the subsequent discussion and analyses will center on these five entities. With the exception of 3rd party financial services contractors that the study group was asked to examine, we assume that other individuals associated with the project are subsumed in the five entities above and do not require separate treatment. Table 4.1 illustrates the major COI safeguards currently present in the RCI PAM program.

4.2 Structure for Task 1

The questions supporting Task 1 focus on the ability of people and processes to identify, resolve, and prevent COI incidents as they relate to managing the housing privatization program at both the portfolio and project levels. Portfolio level management is concentrated in the DASA (P&P) RCI program office. Project level management is clustered at each installation in a Project-Asset Management Team. The following six questions were asked to determine whether there are

sufficient safeguards in all aspects and across all phases of the RCI PAM process to identify, resolve, and prevent COI incidents.

1. Define conflict of interest as it relates to the RCI program.
2. Where in the process could conflicts of interest occur (e.g., negotiating the original deal or negotiating enhancements) and what positions are potentially involved?
3. Is there any evidence of individuals having a conflict of interest in the PAM process?
4. What safeguards are required to prevent, identify or resolve those instances?
5. What safeguards are in place to prevent, identify, or resolve those instances?
6. Are these safeguards sufficient?

Consistent with this task, the USMA study group was asked to extend our consideration to include 3rd party entities involved with providing financial services to the Federal government. The government contracts for these services in order to overcome its knowledge shortcomings concerning large-scale, complex corporate property management. In particular, we were asked to examine the appropriateness of information sharing occurring between two distinct support teams at the portfolio level of the program being provided by the company JLL: a team whose expertise is being leveraged to properly craft installation CDMs and a team providing high-level financial advice to the government portfolio managers.

4.3 Methodology

The methodology employed for accomplishing Task 1 follows a general procedure advocated by the USMA Systems Engineering Management Process (SEMP)² when it is apparent that the basis for conclusions will be extensive stakeholder interview results. Applying this methodology involved four major steps:

1. Research applicable statutes and regulations concerning COI as it relates to the Army privatization program;
2. Conduct interviews for the purpose of gathering multi-level system wide perspectives concerning the day-to-day project relationships that might be cause for concern;
3. Analyze interview observations for relevant indicators in support of individual tasks; and,
4. Develop conclusions and recommendations as to process components that should be sustained, improved, or discarded.

Responses to questions defined in Section 4.2 were collected, grouped by relevancy with each of the questions of interest, and sanitized for non-attribution. These form the basis for each observation noted in Section 4.6. These observations were then analyzed in consideration of the applicable Federal statutes concerning COI cited in Section 4.5 and various RCI program documents that set forth legal requirements and control process structure currently in existence regarding COI. This analysis forms the basis for conclusions. Lastly, the study observations and associated conclusions were considered in the context of recognized best practices for systems engineering, thereby generating the recommendations captured in the top-level summary of results presented in Section 4.5.

4.4 Applicability and Definition of Conflict of Interest

There are two major sources of ethics guidelines addressing issues of COI as it relates to the RCI PAM program: Titles 18 and 5 United States Code; and Volume 1, Part 3 of the Federal Acquisition Regulations (FAR).³

A working definition for COI for this study is a direct extract from one of five statutes in the United States Code (18 U.S.C. §208) that provide direct guidelines on COI.

Definition. "When a government employee, including special government employees, participates personally and substantially in any particular matter that has a direct and predictable effect on their own financial interests or the financial interests of others with whom they have certain relationships. The financial interests of the following persons or organizations are also disqualifying: spouse, minor child, general partner, organization to which the individual serves as officer, director, trustee, general partner or employee; person or organization with which the employee is negotiating or has any arrangement concerning prospective employment."⁴

Related provisions in the Standards of Ethical Conduct for Executive Branch Employees also disqualify an employee, including a special government employee, from participating in matters affecting the financial interests of a person or organization with which the employee is "seeking" employment, even if there have been no actual negotiations or arrangements for prospective employment, within the meaning of section 208.⁵ Furthermore, a provision in the Procurement Integrity Act, which applies equally to special government employees and regular Federal employees, imposes disqualification and reporting requirements on employees who participate in certain agency procurement matters and who receive employment contracts from bidders or offerors in those procurements.⁶

The conduct of an RCI PAM project revolves around the CDMP, which defines the scope of the project, creates incentive fee structures for the Managing Partner and subcontractors, and generates the operating agreement and ground lease in force for a particular installation, among other housing management documents. The government's intent is to craft these elements in a cooperative fashion that ensures each individual project remains financially solvent and viable for the Lender throughout its 50-year lifecycle, thereby enabling the Managing Partner and subcontractors to reasonably profit on the venture and the Army to obtain quality housing for soldiers that it could not have otherwise done under standard military construction (MILCON).

Because of the exceptionally long lifecycle of each project, the unique civilian – government working conditions imposed by the LLC formed at each installation to manage the projects, the amount of scoring dollars invested in each project by the Army, and the myriad of operational decisions made on a day-to-day basis that might affect the flow of dollars, concerns as to whether adequate safeguards are in-place to guard against possible COI among key individuals in Project Asset Management teams are well founded.

The Managing Partner for a specific installation project is selected through a competitive RFQ and source-selection process during the Pre-CDMP and CDMP phases of privatization. During these phases, the Managing Partner's role as a civilian contractor and the subsequent limitations

set forth concerning appropriate relationships between government employee and civilian contractor, and the applicability of FAR Volume 1, Subpart 3.101, Standards of Conduct to the RCI PAM processes are clear. These are the operating conditions most familiar to government organizations and the Staff Judge Advocate (SJA) offices advising them.

The FAR holds the position that “[t]he general rule is to avoid strictly any conflict of interest or even the appearance of a conflict of interest in Government-contractor relationships.”

The FAR most directly apply to the Pre-CDMP and CDMP development phases because it is during these two phases that traditional contracting and procurement activities take place involving government officials and perspective Managing Partners. The FAR concerns itself with government officials “participating personally and substantially in a Federal agency procurement,” specifically including the activities (1) drafting, reviewing, or approving the specification or statement of work for the procurement; (2) preparing or developing the solicitation; (3) evaluating bids or proposals, or selecting a source; (4) negotiating price or terms and conditions of the contract; and (5) reviewing and approving the award of the contract.

“Participating personally” means participating directly, and includes the direct and active supervision of a subordinate’s participation in the matter. “Participating substantially” means that the official’s involvement is of significance to the matter. Substantial participation requires more than official responsibility, knowledge, perfunctory involvement, or involvement on an administrative or peripheral issue.

Throughout the entire project and all of its phases, government officials involved with Project Asset Management are bound by the legal structure set forth in the United States Code and the FAR. The specific citations in the Code applicable to these individuals are the following:

- **Restrictions on representation:**
 - Chapter 11, Title 18 of the United States Code: 18 U.S.C. §§ 203, 205, 207, 208, 209;
 - 5 C.F.R. § 2640.103, § 2637.201
- **Activities in matters affecting the Government**
 - 18 U.S.C. § 205(a)(2)
- **Financial conflicts of interest:**
 - 18 U.S.C. § 208; 5 C.F.R. part 2635, Subpart F
- **Supplementation of federal salary:**
 - 18 U.S.C. § 209
- **Acceptance of gifts:**
 - 5 U.S.C. §§ 7353, 7351, implemented in Standards of Ethical Conduct for Employees of the Executive Branch, part 2635
- **Financial disclosures:**
 - Ethics in Government Act of 1978,
 - 5 U.S.C. app. § § 101-111 implemented in 5 C.F.R. part 2634; and
 - Procurement Integrity Act, 41 U.S.C. § 423.
- **Civilian Fraud Remedies Act**

These statutes apply to:

1. An *officer*, as defined in 5 U.S.C. 2104 as “an individual who is (1) required by law to be appointed in the civil service by one of the following acting in an official capacity—the President; a court of the United States; the head of an Executive agency; or the Secretary of a military department; (2) engaged in the performance of a Federal function under authority of law or an Executive act; and (3) subject to the supervision of an authority named by paragraph (1) of this section, or the Judicial Conference of the United States, while engaged in the performance of the duties of his office.”
2. An *employee*, as defined in 5 U.S.C. 2105 as “an officer and an individual who is (1) appointed in the civil service by one of the following acting in an official capacity—the President; a Member or Members of Congress, or the Congress; a member of a uniformed service; an individual who is an employee under this section; the head of a Government controlled corporation; or an adjutant general designated by the Secretary concerned under section 709 (c) of title 32; (2) engaged in the performance of a Federal function under authority of law or an Executive act; and (3) subject to the supervision of an individual named by paragraph (1) of this subsection while engaged in the performance of the duties of his position.”
3. A *member of the uniformed services*, as defined in 5 U.S.C. 2101(3) as “the armed forces.”
4. A *special Government employee*, as defined in 18 U.S.C. 202 as “an officer or employee...who is retained, designated, appointed, or employed” by the Government to perform temporary duties, with or without compensation, for not more than 130 days during any period of 365 days.”⁷ Special Government employees (SGE) are Government employees for the purposes of conflict of interest laws. They were originally conceived as a hybrid class, in recognition of the fact that the “simple categories of employee and non-employee are no longer adequate to describe the multiplicity of ways in which modern government gets its work done.”⁸

These statutes and their provisions are communicated to the PAM teams and partners on a regular basis through the use of several tools currently present in the RCI PAM program:

- Annual ethics training
- IER statutes
- Disqualification statements
- Army Standards Of Conduct (AR600-50) training
- Form 450 requirements
- SJA out-processing counseling of military and federal civilians
- GAO tailored ethics presentations
- OGC, SJA, and USACE oversight

4.5 Top-level Summary of Results

4.5.1 Oversight efforts and extensive communication between PAM teams and office of the General Counsel (OGC) has been effective in addressing potential COI issues to date

The RCI PAM process is a top-driven, hands-on approach to guiding critical decision making and entity behavior throughout the Army housing privatization program. This process appears to have imbued a heightened sensitivity to Federal government ethics requirements among civilian and Federal government PAM team members and 3rd party financial services contractors providing direct support to the Federal government.

Participating in and reacting to guidance provided by this process appears to be a collection of motivated, intelligent, and forthcoming personnel who clearly understand the need to prevent conflicts of interest if the program is to succeed over its 50-year lifecycle. Given the highly decentralized nature of installation project operations and the obvious downside affects should the RCI PAM program fail to achieve success, continuing to attract and retain such personnel should continue to be a very high priority.

The portfolio level managers' success in facilitating a 2-way free flow of timely, accurate information between portfolio and installation management agencies and across the span of existing installation projects is a major driver preventing COI in the program.

From a top-down perspective, this information flow appears to go a long way towards ensuring a consistent message is being sent to all project locations. From a bottom-up perspective, this communication pathway significantly enhances the portfolio level's knowledge of very current 'ground truth.' Communication and education processes directly supporting this dimension of the RCI PAM program should be reinforced and enhanced whenever possible.

These channels of communication appear to be the primary means of communicating advice and counsel used by SJA and OGC representatives on matters concerning potential COI. The government should take action to insure that all SJA and OGC personnel participating in this process are sufficiently trained and educated on legal matters concerning LLC operations and constraints and flexibility afforded by the law for government and civilian members of the LLC.

The information sharing between JLL teams appears to be without COI. JLL is in direct support of only the Federal government elements of the PAM process. In this capacity, we identified no incentives in the JLL contract associated with the performance of any particular project or its outcome. Quite the contrary, as a financial advisory contractor, JLL appears to be motivated to expose any element of unsatisfactory performance that may occur because it underscores their corporate reputation and insures a degree of future business with the Federal government.

There also appears to be sufficient safeguards in-place to prevent any potential COI involving JLL. While JLL provides advice on setting best value operational parameters and incentive fees within the CDMP, each CDMP goes through a complete approval process through the ASA(I&E) RCI Program Office, ASA(I&E), HQDA staff, Office of Management and Budget

(OMB), Office of the Secretary of Defense (OSD), four Congressional committees in addition to government lawyers, Lender due diligence, and installation project teams.

Knowledge sharing between JLL personnel involved with helping to shape the CDMP deals and those in an advisory role concerning the subsequent performance of the installation CDMP deals seems clearly in the best interest of the Federal government. Installation CDMPs, while created prior to transition to Managing Partner operations, are not static documents. Both Managing Partner concerns and external factors such as those noted earlier initiate CDMP renegotiations. The free flow of information between the two JLL teams noted provide CDMP teams with specific negotiating points for equity returns, debt terms and conditions, base and incentive fees, and costs associated with development and operations that otherwise might be overlooked.

This knowledge sharing arms the government PAM team members with lessons learned from prior CDMPs, information concerning the culture and attitudes of a particular Managing Partner, and common portfolio pitfalls that may require contingency planning. Thus, the Federal government directly leverages the knowledge sharing between JLL teams to overcome potential vulnerabilities created by installation PAM team turnover. This sharing disseminates knowledge to all Partner contact points throughout the program where a myriad of financial decisions apart of CDMP renegotiation are being made on a regular basis.⁹

4.5.2 Provide policy guidelines and responsibilities for COI during PAM period

The PAM process must continue to adapt in concert with its environment while maintaining a fundamental delineation of roles and responsibilities that can permit productive leveraging of both government and Managing Partner core competencies. Identifying the proper government – partner relationships that should exist for the long term health of the projects and addressing these in comparison to the traditional contractor – government culture that has provided significant safety against contra-productive activities by the unscrupulous should continue to be a high priority of the program.

Written policy guidelines addressing COI duties and responsibilities for installation level use would help inoculate the RCI PAM program against potential COI incidents. The LLC structure that forms installation partnerships between the Federal government and civilian property management companies creates unique challenges with regards to preventing potential COI among the various entities involved.

Principally this is due to two factors: the fundamental differences between a ‘partner’ and the more familiar relationship of ‘contractor’ that the government is accustomed to; and the absence of legal guidelines structuring the nature of a proper government – civilian company partnership. There are no formal COI provisions in any Federal law that specifically address the LLC structure created in support of the Army privatization of housing program.

The civilian Managing Partners in the LLC, who are PAM team members, are not equivalent to contractors in at least two significant dimensions. The LLC partnership requires a long term commitment to the business entity that is generally absent in contracting arrangements. This feature enables an appropriate risk distribution based on each partners’ core competency and ability to overcome challenges to the success of the venture over the 50-year project lifecycle.

The potential for a partner's risk to come to fruition provides a natural facility that penalizes inappropriate behavior of the type indicated by COI.

Secondly, partnership success is enhanced through a process of engendering trust among the partners that runs counter to the 'always skeptical,' 'keep at arms length' philosophy underpinning contracting arrangements. Achieving a high degree of trust is linked to partners understanding and respecting each others culture. Over prolonged periods of close partner interaction partner cultures inevitably cross fertilize to an extent, blurring the distinctions that set partners apart in the early years of the business relationship.

These factors, evidenced by interview responses in this study, coupled with the decentralized nature of installation operational decisions underscores that it is in the best interest of the program to provide policy guidelines and assign specific responsibilities among PAM team members for COI prevention during the PAM period. PAM team members appear to be well aware of the unique operating environment described.

4.6 Observations, Conclusions, and Recommendations

Below are presented a list of observations, conclusions, and recommendations for Task 1. Samples of interviewee responses that support each observation are provided.

4.6.1 Observation 1, Conclusion, and Recommendation

Observation 1. There is no evidence of PAM entities having conflicts of interest in the PAM process as defined by Federal statute and the FAR.

- "No one who has left the government has gone to work for XXXX."
- "Partner and staff are very smart in preventing any COI from occurring."
- "None that I have seen; all players seem to be cognizant of the potential for impropriety (mostly in appearance) and take care not to cross any such lines."
- "I have not encountered any COIs to this point at Fort XXX."
- "None in my experience. Bottom line, everyone in the project seems to be well aware of the implications of potential COI and all take appropriate steps to avoid it altogether."
- "I don't see any. The government goes through great lengths to protect proprietary information, and of course nondisclosure statements are signed."
- "I have not seen any problems on our side or the Army side."
- "We are currently at a point where the Garrison Commander and partner understand their roles."
- "I think the developers are getting it and are extremely sensitive [to COI issues], and our folks are trained."
- "There have been no military COI."
- "There have been accusations in the past from [PAM] team members that some team members were too chummy but it turned out not to be true...there has not been any coi that have been apparent or are currently open."

Conclusion. Oversight efforts and extensive communication between PAM teams and OGC appears to have been effective in addressing COI issues to date.

Recommendation. Reinforce and enhance effective sharing of information between and among program levels.

4.6.2 Observation 2, Conclusion, and Recommendation

Observation 2. Several interviewees expressed concern with JLL assisting the Government in structuring a CDMP and helping the Government to interpret project performance data.

- “When the organization that helps shape the deal then reports on the performance of the deal, there is a COI.”

As described earlier, this concern does not appear to be founded. It appears that knowledge sharing among the JLL contract teams is in the best interest of the government.

- **Fort Bliss CDMP:** resulted in an across the board 5-10% reduction in negotiated development, construction management, and property management fees.
- **Fort Rucker CDMP:** because of the information sharing between CDMP deal structuring teams, operating expenses and staffing levels from other projects were provided by JLL to validate/dispute the Managing Partner’s pro forma projections.
- **Fort Riley CDMP:** JLL used its knowledge of past CDMP negotiations to provide strategic input to the debt competition model used to select two (2) underwriters with a combined proposal better for the project.
- **Fort Campbell CDMP renegotiation:** having received an additional \$28 million in government equity after closing, the JLL advisory team relied heavily on the CDMP development team to gain insights into the original pro forma in order to set a new development plan.
- **Fort Belvoir CDMP renegotiation:** the current property manager felt that the current parameters of the CDMP fee structure award requirements were “too hard to get a satisfactory level rating” and wanted to negotiate a lower level of target performance requirements. This property manager was not involved in the original CDMP negotiations. The JLL CDMP team who structured the original deal advised the government that the the original negotiations were contentious and that the CDMP fee structure contained an “intentional design that the highest award the partner could achieve [for property management] was 75% of the available per year.” The Managing Partner had agreed to this condition and signed the CDMP.
- The Federal government consummates the CDMP deals and transitions to Managing Partner operations and is solely responsible for portfolio performance oversight.
- Approval of each CDMP is a process separate from deal structuring, encompassing approximately three (3) months of detailed review and approval by a host of government offices.
- There are no performance incentives in the JLL contract for good or bad project performance.
- “JLL team has in-depth awareness of the details that went into the initial deal with the Managing Partner [in Hawaii]. This has been an absolute benefit for the government and the CDMP has been adjusted many times. With a 133% turnover in leadership and 100% turnover in the Incentive Review Board, JLL has been the continuity, educating new leaders.”

- “Creating a firewall [between JLL teams supporting the government] doesn’t make sense in an open books project...require[ing] daily due diligence and information sharing. Financial analysis is part of every decision.”

As an expert in financial analysis in real estate management and development, JLL serves in an advisory role exclusively to the government via a competitive contract. In this role, JLL and its representatives assist the Portfolio Asset Management team to negotiate and craft the financial elements for each installation CDMP, to interpret the contents of regular financial performance reports provided by these installations, and to develop appropriate measures that aid the government in their effort to capture and maintain a level of best value for the program.

At least one installation independently contracted for financial analysis support from JLL in accordance with the the PAM Handbook which states that the “[p]rimary role of the RCI Project Asset Manager is to “engage...other subject matter experts as needed to support major decisions.”

The financial analysis and advisory services provided by JLL are critical to the success of the RCI program.

- “The role JLL plays brings an expertise of real estate development to the table. The Army determined that [USACE] doesn’t have that.”
- “It would have been a serious disservice to the project and the government to not have hired these guys (JLL).”
- “The numbers are the tough part but JLL Is very important in this area. They run the numbers for us. If I have a question as to whether it is a better deal to have a 3% deal with a 1% incentive or a 2% deal with a 2% incentive, JLL runs the numbers and let’s us know if the government is getting a good deal.”
- “JLL works with USACE to compare pro forma to metrics.”
- “The single best decision we have made for the project was to contract for two JLL analysts out of our own money to advise the government on this project.”
- “JLL does the financial review of the RFQ. In 2003, USACE dropped external review by Collier & Sealy because the results were redundant.”
- “This is an analysis role played by JLL because the SSEB does not have the expertise.”
- “FM does not have the internal capability to assess the good deal for the Army.”
- “JLL compares the Army due diligence to the developer’s pro forma, indicating risk and risk mitigating.”
- “JLL plays ‘bad cop’ in fee negotiations during the CDMP development in order to allow the government partner to play ‘good cop.’”

Conclusion. Knowledge sharing among JLL project support levels is in the best interest of the projects.

Recommendation. Continue extensive knowledge sharing between and across all RCI management levels.

4.6.3 Observation 3, Conclusion, and Recommendation

Observation 3. Portfolio level and installation level people working with JLL believe that no conflict of interest exists.

- “Sensitive to the concern of JLL’s relationship to the program, JLL was selected through a competition. Legal counsel reviewed the selection – no legal COI.”
- “The partner and JLL do not have any ties whatsoever. JLL is our watchdog looking out for the soldiers’ best interests. The partner is in the business of extracting as much money as possible. JLL is on the same level playing field with them and can see the games that are played.”
- “The people that work that PAM don’t work the formation that precedes the PAM.”
- “JLL is a fixed price contract; they have no vested financial interest in the entities they have created.”
- “JLL is not a voting member of the SSEB or SSAC.”
- “We have lots of indicators other than JLL regarding each project’s financial performance, i.e., the project’s independent financial auditors and the Lendor’s conducting periodic tests and audit, together with some financial and lots of operational oversight provided by government personnel.”
- “JLL plays ‘bad cop’ in fee negotiations during the CDMP development in order to allow the government partner to play ‘good cop.’
- “JLL is a COI safeguard.”

Conclusion. There are sufficient safeguards in-place to prevent any potential conflict of interest involving financial services contractors.

Recommendation. Continue COI safeguards between and across all RCI management levels.

4.6.4 Observation 4, Conclusions, and Recommendation

Observation 4. There are no formal COI provisions or guidelines in any Federal law specifically addressing the unique LLC used to manage individual projects at Army installations.

Both the civilian contractor and the government employee roles are less familiar and less addressed in legal statute during PAM and beyond, when both entities become legal partners in a unique civilian – government LLC. During this phase of the project, the residue of limitations established on project entities during the first two phases remains. This residue is based on government official – contractor regulatory limitations. However, the unique LLC operating structure in which various government officials and Federal employees interact with civilian organizations over a 50 year lifetime of the project poses interesting challenges for applicability and interpretation of existing regulations.

During this PAM period, partners are expected to develop good working relationships so that stable processes are in-place to handle any situation that might arise during the project lifetime. It is possible, in fact likely, that many of the resulting activities and relationships that evolve, while in the best interest of the LLC, will conflict directly or indirectly with the statutes and regulations written without such a concept in mind.

Conclusion 1. Written policy guidelines for installations level use would help protect against COI incidence.

Conclusion 2. The absence of explicitly stated responsibilities concerning COI increases the potential for conflicts of interest to occur during the PAM period.

Recommendation. Craft and distribute straightforward Post CDMP conflict of interest guidelines for PAM team use.

4.6.5 Observation 5, Conclusions, and Recommendations

Observation 5. There appears no explicit statement of responsibility for operational oversight on ethics and adherence to conflict of interest requirements of the FAR or U.S.C. in the responsibilities described in the PAM Handbook¹⁰, the Compliance Checklist, or any other legal document available to the PAM team members.

Among the responsibilities noted in the PAM Handbook, the following are those that come closest to explicitly requiring oversight of the PAM process for the purposes of safeguarding against possible conflicts of interest. These are taken directly from Section II of the PAM Handbook, dated 25 January 2005.

Garrison Commander: (government employee, military officer)

- Participate in all Major Decisions
- Maintain a long term focus on project major decisions
- Provide oversight of the RCI project business entity and ensure process and procedures are in place and functioning to ensure compliance with project legal documents

RCI Project-Asset Manager: (government employee)

- Provide early identification of issues which may affect the project
- Provide oversight of the RCI project business entity and ensure process and procedures are in place and functioning to ensure compliance with project legal documents
- Provides oversight of developer business processes/procedures which ensure compliance with legal documents

Deputy Project-Asset Manager: (government employee)

- Identifies significant RCI project issues for consideration by the RCI Project-Asset Manager

Project-Asset Management Team and the Partner.

- Compliance with the legal documents and business agreements of the project as guided by Compliance Checklist and the Portfolio Compliance Report provided by the Portfolio Asset Management office at DA RCI.

Installation SJA: Legal Support to RCI Project Asset Manager

- When complicated legal situations arise or the RCI Project-Asset Manager requires additional legal expertise they should consult with HQDA OGC or the Installation SJA.
- Applies independent judgment and initiative in ensuring compliance with the unique and complex legal documents controlling the LLC/LP

- Develops and implements procedures, systems, and guidance for evaluation of developer performance in regards to requirements of legal documents
- Requests proposals, prepares Army positions, and conducts negotiations with Developer/Partner to incorporate or change provisions of the development plan as necessitated by mission changes, change in regulations, or as directed by HQDA

Conclusion 1. Written policy guidelines for installations level use would help protect against COI incidence.

Conclusion 2. The absence of explicitly stated responsibilities concerning COI increases the potential for conflicts of interest to occur during the PAM period.

Recommendation. Craft and distribute straightforward Post CDMP conflict of interest guidelines for PAM team use.

4.6.6 Observation 6, Conclusions, and Recommendation

Observation 6. Some installation team members expressed concern as to what conflict of interest guidelines apply for the unique situations they face during the Post CDMP period.

- “We are currently sort of straddling the line here because we don’t know how far to go.”
- “There is no legal precedent to turn to in order to decide a particular COI issue involving the LLC. We end up having to conference call with the OGC and hope to come up with a 60% solution that makes sense.”
- “We need to re-look the ethics rules for dealing in these kind of situations, because in the end what they help to save the project and the partner ultimately helps out the Army.”
- “The partner wanted the Garrison Commander to go to the water board to lobby for them to try to get out of getting charged for connection fees.”
- “XXXX had a problem with about \$8000 of back rent. The E9s got involved and assisted.”
- “We have transitioned from a great deal of grey area into a fine shaving of interpretations. Attorneys have a hard time distinguishing between what a violation is versus what is not a violation.”
- “The legal office must now go to the Office of General Counsel or Standards Office to interpret rules.”
- “Contractors are a prohibited source.”
- “There should be a provision [in the partnering agreement] to comply with ethics rules.”
- “There is no mechanism in-place to control these things. For example, a JLL employee negotiating a deal with XXXX at Fort XXX, then hired by XXXX to negotiate a deal at Fort YYY. Organizationally, no immediate COI.”
- “XXX is used to doing dinners and gifts, so there has been this whole thing about ethics. No cases of COI.”

Some installation PAM team members expressed concern for potential conflict of interest situations they believe could surface during the PAM period. While some of these concerns represent areas for continued vigilance among the project management at portfolio and installation levels, others are a clear indicator that specific COI guidelines need to be provided.

- "When the managing partner owns the construction company and votes to approve incentive fees, there is a potential for COI."
- "General officers can influence taste elements in quarters."
- "Whenever the CG or Garrison Commander requests action, that generally takes place first."
- "There is a potential for COI if the Community Housing Referral Relocation Service (CHRRS), which is currently managed and run by the Army, is turned over to the partner."
- "A government officer sitting as a member of a board of a private corporation presents itself as a COI issue because of the central role the Asset Manager and Garrison Commander play in the role of award fee."
- "When contractors are asked to pony up things that make them good citizens of the post, it may lead to greater conflicts."
- "Ethics training does not address privatization; just ethics issues and employment negotiations."
- "There are a lot of issues out there where it is going to benefit both partners. This isn't a personal financial interest, but it can be looked at as a military financial conflict of interest."
- "When I started in 2001, there was a lot of looking to this contractor to supplement the needs of the installation. Any off-budget resource from the government looking to a contractor for resources may lead to conflicts of interest."
- "The approach that has the Army serving as partner, program manager, and judge for incentive fees creates a conflict of interest. This is particularly true where installation staffs continue to own some of the functions on a project, such as managing the waiting list, which directly impacts the business success of the partnership."
- "As it is currently set up, the installation RCLO works directly for the DPW. This compromises the RCLO's objectivity with respect to providing a fair and unbiased assessment of the partners fee estimate."
- "...there could be a potential COI stemming from the partner's desire to repair and maintain unrenovated quarters."
- "Within the LLC itself, there is a potential for COI in balancing soldiers' interests with the legal requirements/constraints, that is, using government money to move soldiers to fill vacant homes."
- "The DPW has many constituencies they are trying to satisfy. The PAM team has one. DPW should not take advantage of the project to their advantage."

Conclusion 1. Written policy guidelines for installations level use would help protect against COI incidence.

Conclusion 2. The absence of explicitly stated responsibilities concerning COI increases the potential for conflicts of interest to occur during the PAM period.

Recommendation. Craft and distribute straightforward Post CDMP conflict of interest guidelines for PAM team use.

Guidelines specifically addressing appropriate behavior and limitations of the major PAM entities concerning conflict of interest would enhance the health of the privatization program.

The dependency upon "legal documents" throughout the existing duties and responsibilities set forth in the PAM Handbook appears to be a natural place to codify accepted and expected behavior and limitations on the LLC participants rather than leave them as tacit residue of obligations incurred due to operating roles prior to transition.

There are alternatives available to the government within both the United States Code and the FAR to craft appropriate guidelines that will ensure ethics goals and standards are maintained over the course of the project. Optionally, it also appears possible to define consistent behavior and responsibilities within the legal documents that shape the project operating environment at each installation.

Possible accommodations, where appropriate appear to be available under FAR Volume 1, Part 3, Section 101-3 (a) that states "Agencies are required by Executive Order 11222 of May 8, 1965, and 5 CFR 735 to prescribe "Standards of Conduct." These agency standards contain—(1) Agency-authorized exceptions to 3.101-2."

Additionally, Subpart 1.401 of the FAR describes the conditions under which deviations from the FAR are accommodated, if necessary. A "deviation" in this context means any one or combination of the following:

- (a) The issuance or use of a policy, procedure, solicitation provision (see definition in 2.101), contract clause (see definition in 2.101), method, or practice of conducting acquisition actions of any kind at any stage of the acquisition process that is inconsistent with the FAR.
- (b) The omission of any solicitation provision or contract clause when its prescription requires its use.
- (c) The use of any solicitation provision or contract clause with modified or alternate language that is not authorized by the FAR (see definition of "modification" in 52.101(a) and definition of "alternate" in 2.101(a)).
- (d) The use of a solicitation provision or contract clause prescribed by the FAR on a "substantially as follows" or "substantially the same as" basis (see definitions in 2.101 and 52.101(a)), if such use is inconsistent with the intent, principle, or substance of the prescription or related coverage on the subject matter in the FAR.
- (e) The authorization of lesser or greater limitations on the use of any solicitation provision, contract clause, policy, or procedure prescribed by the FAR.
- (f) The issuance of policies or procedures that govern the contracting process or otherwise control contracting relationships that are not incorporated into agency acquisition regulations in accordance with 1.301(a).

Subpart 1.404 also contains a facility for "class deviations" that affect more than one contract action. When an agency knows that it will require a class deviation on a permanent basis, it should propose a FAR revision, if appropriate. Subpart 1.404 (b) states that "for DoD, class deviations shall be controlled, processed, and approved in accordance with the Defense FAR Supplement."

4.6.7 Observation 7, Conclusion, and Recommendation

Observation 7. Most interviewees expressed both a strong awareness of COI statutes with regards to the duties and responsibilities of their position in the RCI program and believe that appropriate safeguards are in-place.

- “Our SJA beat ethics into us and it is emphasized in pre-command training. In every RCI training, [ethics] is a part of the conference.”
- “[The safeguards] seem to be working just fine from my point of view; we’ve had no issues that I have seen or heard of.”
- “Yes, [the safeguards] are sufficient and effective.”
- “GAO is beginning to give a tailored ethics presentation at various training events and lessons learned conferences.”
- “There is more COI with a private developer that in appropriations; however the private developer has gotten us more...we have good management controls in-place to deal with the unscrupulous.”
- “There are safeguards in-place. There is no place to have the opportunity to influence the process.”
- “I think that there was probably a natural friction as people tried to define their roles. That has been worked out and everyone feels comfortable with each other.”
- “We have one of our lawyers that has made this his area of expertise. He has created a network among other lawyers at other installations.”
- “We have a CPA accounting firm that overlooks our financial statements and audits them and signs off on them. The lender is an oversight, a third party overseer.”

Conclusion. Installation PAM team members have access to unique observations and insights concerning potential COI situations during the PAM period.

Recommendation. Include training and education of installation level SJA personnel concerning proper government – Managing Partner relationships for the PAM period.

4.6.8 Observation 8, Conclusion, and Recommendation

Observation 8. Some interviewees suggested additional safeguards that could be incorporated into the program.

- “There are none in the CDMP process that are evident or that specifically address COI.”
- “[H]ave good people associated with the program. The knee jerk reaction is to pass legislation, but generally it punishes the good people who have to sit through new training, new laws. Instead, punish the wrongdoers who are a small population.”
- “Compliance to the spirit of the law is inversely proportional to the amount of detail in the law.”
- “Communication between the Army side and the partner; keep the SJA involved to make sure all the legal aspects are covered.”
- “Needs to be included in the curriculum at the JAG school.”
- “Legal documents that clearly delineate project scope and what can and cannot be done.”

- “[T]he PAM process does not really address COI whatsoever, which can be dangerous. While we have not had any issues, this has mostly been the result of good people recognizing what needs to be done and how to do it properly.”

Conclusion. Installation PAM team members have access to unique observations and insights concerning potential COI situations during the PAM period.

Recommendation. Include training and education of installation level SJA personnel concerning proper government – Managing Partner relationships for the PAM period.

4.7 Summary of Observations, Conclusions, and Recommendations

Table 4.2 provides a visual summary of the COI observations, conclusions, and recommendations. The green cells reflect areas that require minimal oversight. The yellow cells reflect areas that require continual oversight.

Table 4.2 Summary of Observations, Conclusions, and Recommendations

	Observations	Conclusions	Recommendations
ALL Phases	There is no evidence of PAM entities having conflicts of interest in the PAM process as defined by Federal statute and the FAR.	Oversight efforts and extensive communication between PAM teams and OGC has been effective in addressing potential COI issues to date	Reinforce and enhance effective sharing of information between and among program levels.
	<p>1. Several interviewees expressed concern with JLL assisting the Government in structuring a CDMP and helping the Government to interpret project performance data.</p> <p><i>"When the organization that helps shape the deal then reports on the performance of the deal, there is a COI."</i></p> <p>2. Portfolio level and installation level people working with JLL believe no conflict of interest exists.</p> <p><i>"JLL is a fixed price contract; they have no vested financial interest in the entities they have created."</i></p> <p><i>"JLL was selected through a competition. Legal counsel reviewed the selection – no legal COI."</i></p> <p><i>"JLL plays 'bad cop' in fee negotiations during the CDMP development in order to allow the government partner to play 'good cop.'"</i></p>	<p>1. There is no COI associated with financial services provided by JLL in the RCI program.</p> <p>2. There are sufficient safeguards in place to prevent any potential conflict of interest involving financial services contractors.</p> <p>3. Knowledge sharing among JLL project support levels is in the best interest of the projects.</p>	Continue COI safeguards and extensive knowledge sharing between and across all RCI management levels.

Table 4.3 Summary of Observations, Conclusions, and Recommendations

	Observations	Conclusions	Recommendations
PAM	<p>There are no formal COI provisions or guidelines in any Federal law specifically addressing the unique RCI Limited Liability Corporation (aka: "partnership") used to manage individual projects at Army installations.</p>	<p>1. Written policy guidelines for installation level use would help protect against COI incidents.</p> <p>2. The absence of explicitly stated responsibilities concerning COI increases the potential for conflicts of interest to occur during the PAM period.</p>	<p>1. Issue straightforward conflict of interest guidelines specifically addressing appropriate behavior during the PAM period.</p> <p>2. Formally assign PAM team and Managing Partner oversight responsibilities for Government – Partner relationships during the PAM period.</p>
	<p>There appears no explicit statement of responsibility for operational oversight on ethics and adherence to conflict of interest requirements of the FAR or U.S.C. in the responsibilities described in the PAM Handbook, the Compliance Checklist, or any other legal document available to the PAM team members.</p> <p>Some installation team members expressed concern as to what conflict of interest guidelines apply for the unique situations they face during the PAM period.</p> <p><i>"We are currently sort of straddling the line here because we don't know how far to go."</i></p>		

Table 4.4 Summary of Observations, Conclusions, and Recommendations

	Observations	Conclusions	Recommendations
PAM	<p>Most interviewees expressed both a strong awareness of COI statutes with regards to the duties and responsibilities of their position in the RCI program and believe appropriate safeguards are in-place.</p> <p><i>"Our SJA beat ethics into us and it is emphasized in pre-command training. In every RCI training, [ethics] is a part of the conference."</i></p> <p><i>"Yes, [the safeguards] are sufficient and effective."</i></p>	<p>Installation PAM team members have access to unique observations and insights concerning potential COI situations during the PAM period.</p>	<p>1. Maintain and enhance communications processes between RCI program levels to capture time-sensitive observations concerning potential COI issues.</p> <p>2. Include training and education of installation level SJA personnel concerning proper Government – Partner relationships for the PAM period.</p>
	<p>Some interviewees suggested additional safeguards that could be incorporated into the program.</p> <p><i>"Legal documents that clearly delineate project scope and what can and cannot be done."</i></p> <p><i>"Needs to be included in the curriculum at the JAG school."</i></p>		
	<p>Some installation PAM team members expressed concern for potential conflict of interest situations they believe could surface during the PAM period.</p> <p><i>"Any off-budget resource from the government looking to a contractor for resources may lead to conflicts of interest."</i></p>		

Chapter 5. Best Value

5.1 Overview

This chapter outlines the analysis of Task 2 and Task 5, defined respectively as “Assess whether the processes within RCI PAM ensure the government gets the best value” and “Assess whether the processes within RCI PAM yield the best economical value.” Different perspectives of “best value” are presented followed by a discussion of the specific method of analysis used to arrive at the conclusions and recommendations that are to be discussed. Task 2 and Task 5 has been divided into two distinct sections. The specific discussion for Task 2 begins in Section 5.3 and in Section 5.5 for Task 5.

5.2 Best Value Analysis

5.2.1 Structure for Task 2

The questions supporting Task 2 focus on identifying factors that facilitate a good deal and performing an assessment of the implementation of such factors and their effectiveness in ensuring the governments gets a good deal. The following seven questions were asked to determine whether factors exist and are effective in all aspects and across all phases of the RCI PAM process to ensure the government gets a good deal.

1. Define the factors involved in a deal for both the government and partner.
2. Given the factors, what constitutes best value for the government for each phase of the RCI process?
3. What measures should be used to determine whether the government gets the best value in each of the phases of the RCI process?
4. What systems should be in place to ensure the government receives the best value in each of those phases?
5. What systems are in place to ensure the government receives the best value in each of those phases?
6. How do those systems perform relative to the established measures?
7. What changes are required to ensure that the government gets the best value in future RCI partnerships?

5.2.2 Best Value Definition Depends on the Stakeholder

Shortly after conducting preliminary interviews, it became clear that the definition of best value depends on the stakeholders' perspective. Therefore, instead of one best value definition, we found it useful to define best value from the perspective of each stakeholder. Since the multiple perspectives are quite different, we concluded that our study must consider each stakeholder perspective in our analysis.

- **Contracting**

“Best value” means the expected outcome of an acquisition that, in the Government’s estimation, provides the greatest overall benefit in response to the requirement.¹¹

- Selection of best potential partner

- **Army**

Best housing for soldiers for Army housing budget.

- “Best value essentially equates to the Army getting the best possible house for the money. This translates to better housing and quality of life for soldiers, as well as cost savings to the army by relinquishing management and maintenance responsibilities to the private partner. This allows the Army to get out of the housing business and free up resources to focus on mission-critical areas.”
- Provide oversight of RCI PAM program
- Stewards of the Army resources
- Construction, maintenance and sustainment of homes
- Increased retention
- Long term perspective: “At the end of the 50-year period, no housing may be more than 25-years old at the time of transfer back to the Army.”

- **RCI Program Office**

Best use of privatization to achieve adequate housing for soldiers and their families.

- Create win-win for partners and Army
- Partners must make a fair and reasonable profit
- Army equities must be protected.

- **Installation**

Best on-post housing communities for soldiers and their families.

- “A solid and smart plan that reflects sound thinking, best practices, and community/customer desires and needs.”
- “Community involvement in the process and plan development.”
- Great houses, great materials, great renovations
- Good oversight on all sides
- Great customer service
- Great communication between partner and installation
- Community atmosphere & environment (community centers, parks, infrastructure, etc.)
- High customer satisfaction
- Families are being taken care of
- Increase soldiers quality of life

- **Soldier**

Best value of housing and community for their BAH.

- Quality housing build to family needs
- Community services
- Customer service

5.3 Observations, Conclusions, and Recommendations

This section presents a summary of analysis of each of the four phases stated above. We summarize the observations. Conclusions and recommendations are drawn from an analysis of the observations that address the specific task.

5.3.1 Pre CDMP Phase

In the Pre-CDMP phase, the primary focus is on the contracting perspective to select the best potential partner. The FAR definition of best value is used. The contracting officer and ASA(I&E) RCI Program Office are the key participants in the process. The installation has one member of the source selection board. Sample interview responses are provided in support of each observation.

5.3.1.1 Observation 1 and Corresponding Conclusion and Recommendation

Observation 1. The RCI contracting process is designed to select the potential partner who offers the best potential value for the installation.

- “Our job is to select the right developer in an innovative, streamlined, business like manner.”
- “Best value means the right partner matched with the installation.”
- “The competitiveness entailed in the RFP process. One thing we find in a selection board is that the partners are getting much better at putting a proposal together, which hopefully improves execution. We’ve helped the potential partners by informing them of why they did not get the deal.”
- “We must select the right partner for the installation (a good, financial sound, and capable partner)
- “Our goal in the selection process [of the partner] is to protect the Army’s interests.”
- “We identify characteristics of the offering companies and look for the company that is best qualified to provide us with the best value.”
- “We use a two-step process in which we review the offeror’s past experience and then receive an oral presentation that describes the company’s financial capabilities, project concept, and project finance.”
- “Of all the factors figuring into “best-value” the financial factor is the most important.”

- "It is important to maintain a healthy, competitive outside market."
- "We now have more data to look at in terms of installations currently privatized and how well developers are performing at those installations."
- Selection board has one member from the installation

" .. after 15 deals, we now know what to look for. We also have bankers competing whereas before it was difficult getting bankers involved. We now have more options for partners."

Conclusion. The RCI contracting process is providing the best value for the Army and the installation.

Recommendation. Army senior leadership should continue to monitor the number of qualified bidders for each RFQ.

5.3.1.2 Observation 2 and Corresponding Conclusion and Recommendation

Observation 2. There are sufficient bidders and there have been no successful protests.

- "The grouping of installations vastly accelerated the acquisition time. It reduced the cycle time between the individual installations."
- "The government gets best value when there is no successful protest from my point of view; allowing everyone the opportunity to compete."
- "One bidder submitted a protest but it was not upheld. We have not had a protest in 2.5 years and we have a good working relationship with the bidders."
- "The number of lenders who have competed by project varies but recently we have received approximately 8 proposals per project. At this point we have had 6 different lenders who have closed RCI transactions."

Conclusion. The success of the RCI program requires sufficient qualified bidders to obtain competition.

Recommendation. Army senior leadership should continue to monitor the number of qualified bidders for each RFQ.

5.3.2 CDMP Phase

The CDMP phase includes the development and approval of the CDMP. The potential partner and the installation tailor the CDMP to the installation with the help of the RCI program office and JLL on-site financial management support.

5.3.2.1 Observation 1, Conclusion, and Recommendation

Observation 1. Tailoring the CDMP to the installation is critical to RCI success at the installation.

- "Best value means a well-structured and well-tailored CDMP with the partner."
- "The winning offeror's final proposal looks different than final CDMP after being on the ground six months."

- “Best plan for communities; most house for the money; good deal on utilities.”
- “CDMP should be a solid and smart plan that reflects sound thinking, best practices, and community/customer desires and needs.”
- “CDMP should consider quality of life— pets, recreational centers, etc. We looked at every aspect of living, amenities, etc. We benchmarked against outside Home Owners Associations.”
- “During negotiations, the partners have exceeded our expectations. Their experience on how to do this has brought original ideas; more innovation that makes for a better product than what the Army could have done.”
- “Hood and Lewis showed how we would have done things stupid if this was a contract. The partner has figured out to make best use of what we have e.g., conversion of quarters to standards, etc. We would not ever been smart enough to do this without thinking we had to replace everything. There is a huge level of trust achieved during CDMP negotiation whereas the transition is difficult with other services. Also, Army housing was in worst shape [compared to other services].”

Conclusion. The CDMP development phase with installation and community involvement is critical to the success of the RCI at each installation.

Recommendation. Continue to apply lessons learned to improve future CDMPs.

5.3.2.2 Observation 2, Conclusion, and Recommendation

Observation 2. Installation and community involvement are keys to tailoring the CDMP to the installation.

- **“The key is community involvement at all levels; it has to be a community plan, not just building groups of houses.”**
- “We need to conduct a good and thorough stakeholder analysis at each installation to ensure that the project hits no roadblocks (i.e., elected officials, schools, etc.).”
- “Considerable installation involvement in the CDMP to identify and address unique situations for that installation early on.”
- “Seek involvement of local elected officials in order to get “buy-in” from them so that they know that the program will not adversely impact their communities.”
- **“CDMP must consider community atmosphere & environment (community centers, parks, infrastructure, etc.).”**
- **“The incentive structure is developed in CDMP (quality, safety, schedule, costs, etc.).”**
- “We went with the modular option and are getting GREAT results and bigger homes for the money.”
- **“With each new project, they are improving. Lessons learned are being integrated or effectively passed from one project to another. The program began at a high level and is getting better. Process of putting RCI on the ground has been structured based on what works and doesn’t. The knowledge base and experience base has grown. Amenities, community concept and configuration are better incorporated at each installation.”**

Conclusion. The CDMP development phase with installation and community involvement is critical to the success of the RCI at each installation.

Recommendation. Continue to involve installations and communities in the CDMP development.

5.3.3 Transition

The Post-CDMP includes the transition to partner operations and operations at each RCI installation. Our interviews at each installation found overwhelming support for the program. However, several concerns were identified.

5.3.3.1 Observation 1, Conclusion, and Recommendation

Observation 1. Army installation leaders state the RCI PAM program is providing the best value for their installations and soldiers.

- “This is the single most important project I have worked in the Army. This is a great program. It is a Win/Win for Army and partners.” (Asset Manager)
- “One word – GREAT!” (CSM)
- “Best value is determined by better housing, efficient housing, built quicker, built to family needs, the way they build; you get more community relations & house is equipped with more amenities. You can feel Army’s focus is more toward families.” (CSM)
- “We are getting best value and the emphasis is placed on enlisted and junior NCO housing.”
- “The Army is getting a better product for its soldiers, built and managed by professional organizations that exist for that purpose, while at the same time eliminating Army involvement and costs.”
- “Services are better. They listen to soldiers. Soldiers have more say so.” (CSM)
- “It gets the Army out of the housing business and lets people who are better qualified to take care of it. In short, soldiers and their families get quality housing while the Army can refocus resources to other areas, like training and installation support.”
- “The RCI program includes a major piece that plans for maintenance/sustainment of quality for the homes. MILCON does not do this; rather it just allocates money for the build.”
- “The quality of RCI homes is better than MILCON homes. Quantifying the quality difference between RCI homes and MILCON homes is difficult, but necessary in any best value calculation done.”
- “We are getting more dollar for dollar than we did MILCON in terms of how dollars are leveraged. You have construction, renovation, service calls – I think we get a lot more for our money.”
- “We have dollars to do what’s needed – sustainable and predictable. Streamlined government contractor and reporting bureaucracy. Wonderful job in advance planning for construction. We talk with residents about their needs.”
- “Best practice to sustain and equip the force to focus on core competency. Tactical commanders no longer have to be concerned over housing.”

- “There was a return on investment goal – the Army has exceeded that 1:13 vs 1:7 leverage. The project has returned double the projections than what was stated. Dollars that were earmarked for housing never reached housing although it was already hard to get dollars. With this process, every dollar from BAH is getting to housing.”

Conclusion. The RCI program is a successful privatization program.

Recommendation. Continue to manage RCI as a privatization program tailored to the unique needs to each installation.

5.3.3.2 Observation 2, Conclusion, and Recommendation

Observation 2. Army installation leaders believe that RCI accomplishments could not have been achieved without privatization.

- “The improvements that I have seen, could never have done under military construction appropriations.” (GC)
- “We have 600 homes that we would have never had. The developer has a long term commitment. RCI is flexible enough to allow changes to the program.” (Asset Manager)
- “We could never do this with MILCON. The quality of housing is very high and the scope of the project is immense, commensurate of that in large scale community developments.” (CG)
- “Housing privatization is a most successful venture – it helps meet goals for quality of life and helps retain good soldiers and provide living conditions similar to folks being defended.” (CG)
- “New facilities are on the ground for soldiers now. In the past, we begged for dollars to maintain housing. [Partner] is doing things that took a long time and doing it in less time and with less cost.”
- “Privatization introduces a great deal of money that the Army did not have. Privatization brings a lot of industry experience, which is unlimited, creative, and more innovative. Unpredictability of funds has been erased. We are working in a collaborative atmosphere. Calling it a partnership facilitates ownership by all parties
- “RCI has done as well by operating with autonomy. This move kept it from having to convince everyone involved in housing. The people who put the program together had the foresight for the project to last. It will take on a life of its’ own. The homes definitely compete with the houses in the local economy involved.” “
- “We simply could not have provided what the partners are providing and with the speed with which they are providing it with the money we had. This takes a burden off the Army and makes life better for the soldiers.”
- “We get better value than with appropriations. Houses cost less. The developer doesn’t have to go through the construction process/FAR to get houses built but can rely upon best practices. We have constructed financial agreements to where there is good value with the partner. Good housing for less money and faster (speed of construction). Under the traditional system, there were caps. We needed congressional approval to go beyond the cap. That doesn’t have to be done now. Value has been put into houses quicker. The Army was not capable of doing what the developer has done.”

- "When MILCON builds houses, there is no preventive maintenance tail but a sustain tail with a long gradual decline - thus no repair and maintenance dollars. Developers get a tax break. They have a sinking fund. They get a depreciation advantage, which is an incentive for developers. Congress/Army gets no tax break - thus no incentive.
- "It helps the Army achieve a standard quality of life that we could not achieve in 100+ years. RCI is using JLL to help leverage best value for the Army." (GC)
- "Bottom line - 400 new houses that would not be here in addition to 2 swimming pools. Renovation and maintenance is being done that would not have happened. Our budget has decreased over the last 2 years; with that none of this would have been done." (GC)
- "A great deal; no way we would have gotten quality any other way."
- "This [RCI] is something the government could never do. Having been housing manager, we put band aids on things."
- "I am awed at the improvement. In the past, none of this would have happened. We have an incredible increase in the quality of life for the people stationed here. RCI brings a sense of community." (CSM)
- "I was initially opposed, but quickly changed my position when I saw what was actually happening. First, the partners bring the expertise that the Army could never have matched in terms of management, financials, etc. Second, the project guarantees a cash-flow for 50 years. Before RCI, housing was year-to-year by-the-seat-of-your-pants management because finances were never guaranteed. As a result, we could never plan; now, the partner has a 50-year plan. Third, the Army still has decision-making influence over the partner, which means our interests get served."
- "The RCI process is more efficient. Decisions get made quicker and answers are provided quicker. Management of housing has been centralized. A consistency has been afforded the program unlike before. A great deal of bureaucracy has been cut out. The way RCI is organized and has been fielded is great."

Conclusion. The RCI program is a successful privatization program.

Recommendation. Continue to manage RCI as a privatization program tailored to the unique needs to each installation.

5.3.3.3 Observation 3, Conclusion, and Recommendation

Observation 3. Some leaders are concerned that the Army will lose sight of the progress that has been made in RCI.

- "I hope the army doesn't change the rules midstream. It always seems like the rules changes and the developers walk away. Bottom line is businesses are in the business of making money; we have to understand this. The rules seem to change every time when a new regime comes on the scene; hopefully we will have that 50 years this thing is still working."
- "Over time, not too far away, people will begin to look at the project as a source of money. I see the Army trying to shift services to the project because it has money. If so, there will be degradation to the RCI process and services being performed."

- “What would bother me is if we resort to a set of governmental controls that over checks the partner – which fundamentally tells OMB and OSD that this is still a governmental program. Back to MILCON under another name. I see this in the form of GAO saying what controls you have. If they ever got together with CBO, this would doom the project.”
- “My concern is that we bureaucratize it. Every dollar you take out of the process is a dollar that will not go into a home. I would hope that this is not turned back into MILCON. We privatized for a reason and I hope that we remember that. I truly felt the private sector in collaboration with the army with revenue could do better. Now dollars can not be taken out of the pot whereas before it could and there was no long term maintenance program. Once plans are in place, we will only be able to tamper with them so much. If our goal is to provide homes equitable to the outside sector, we can provide them a better community than they would be able to get outside the fence. Let’s not tamper with that.”

Conclusion. The RCI program is a successful privatization program.

Recommendation. Continue to manage RCI as a privatization program tailored to the unique needs to each installation.

5.3.3.4 Observation 4, Conclusion, and Recommendation

Observation 4. Most installations leaders and partners state that incentives are in place to motivate the partner to use better quality and higher grade materials in the interests of long term savings.

- **“The incentive for the developer to use better quality materials lies in the fact that the developer will be maintaining the property for the life of the project (50 years).”**
- “The partner is well aware that they’re in it for the long haul to manage, maintain, and operate the property. Better homes equal lower maintenance costs and greater customer satisfaction, which translates to more profits.”
- “The more efficient the home, the lower the utilities and renter insurance portions of the BAH will turn out to be... the higher the rent portion that goes to the developer is higher.”
- “The partner will be maintaining the houses; the better built and more efficient they are, the less maintenance they will require, thus the partner saves money on the maintenance of the project in the long run.”
- “They [the partner] own it and maintain it for 50 years. It is easily in their best interests to build the best quality homes that they possibly can so that they can maximize customer satisfaction and keep occupancy high. Remember, they are competing with the off-post market.”
- “The primary incentive is competition with the local market off-post. They have to build houses as good or better if they have any hope of attracting residents.”
- “The incentive plan is pretty strict. [JLL] helped us work through this to ensure partner got a fair share and ensure project did not fall short monetarily.”

Conclusion. The LLC incentives appear to be effective.

Recommendation. Continue to improve incentives and share lessons learned in RCI Lessons Learned Workshops.

5.3.3.5 Observation 5, Conclusion, and Recommendation

Observation 5. Some interviewees raised incentive issues.

- “For new construction, XXX refused to agree to the incentives. They wanted to get all the money guaranteed without incentives for performance. This is a problem as there was very little room for negotiations since XXX was so big vice the developer YYY.”
- “There is no partner incentive to hold down costs. The higher the costs the higher the fees.”
- “Our incentive plans needs to be reexamined. Subjective items are too hard to judge.”
- “The amount gets their attention. I would love to rewrite the plan because when it was developed, it focused a lot on construction. The focus should be on other areas to same degree, i.e., property management. Some things were left out that needs to be in the plan. This flexibility is not built in. The IPMP should be written by Army independent of the partner. The partner wrote it and we agreed to it.”

Conclusion. Issues were raised that require continuing improvements.

Recommendation. Continue to improve incentives and share lessons learned in RCI Lessons Learned Workshops.

5.3.3.6 Observation 6, Conclusion, and Recommendation

Observation 6. Some senior leaders have financial management concerns about the RCI program.

- “One thing that also worries me is our willingness to believe [the partners] are in it for us – they are in it for themselves. Instead of renovating for less cost, they choose to tear it down and reconstruct it. This results in less maintenance cost and they get construction costs. This is not damming to the project. The most important thing to the Army is that we know their game so that when we plan our deal we incorporate our knowledge to get a good deal.”
- “I am concerned about government folks becoming too comfortable and not remaining vigilant in maintaining oversight IAW their roles and responsibilities. They need to really watch out for the government party if the partner is overbearing.”
- “I am concerned about the possibility of foreclosure on an RCI project. The partner has multiple roles – owner, maintainer, developer. We could have an ownership entity overextended financially. Developers could foreclose on the deal and all of sudden you have a new entity.”

- “You have to watch finances. We wanted people that wanted to come in and make money for 50 years – with the fee structure, making money over time instead of with fees; however we still need to work on this and ensure financial viability stays healthy so that the deal does not go south. We are still in the honeymoon phase. If the cash flows goes bad, we will have to deal with the contractors. As to which specific ones we want to look at, we have work to do in this area.”
- “The Partners have nothing in the deal. They will flip it because they make their money in the fees. They have no real interest in sticking with the deal.”
- This is a very risky program and we did not understand the level of risk; however we are getting good houses – this is a sign of respect. A tremendous success story from the side of the beneficiary; however if we begin to see financial failure and the government has to restructure the mortgage, services will go down and houses will begin to go down.”
- “Below occupancy rates should be a red flag about how are we managing funding for the project. Are there triggering mechanisms that allow asset management to be alerted when the project is in possible danger? Restructuring a deal after the fact is not good business practice.”
- “They got 5% in the deal and we got 95% in the deal (primarily through scoring dollars and BAH) although we are a 49% owner. Why are we treating the developer as a partner? It troubles me that we are a minority partner when we are taking the majority of the risk and putting in so much capital.”
- “There should also be a robust QA/QC/COR effort built into the process on the Army’s side to ensure government interests are being met. Currently, the partner and the builder handle this.”

Conclusion. A well trained asset management team is the key to protecting the Army’s equities in the LLC.

Recommendation. Assess RCI installation training as part of monthly and quarterly reports.

5.3.3.7 Observation 7, Conclusion, and Recommendation

Observation 7. Many installations identified the lack of asset management team education and training, especially in financial management, as a key concern.

- “These are sophisticated financial transactions. We need to have folks that are as sophisticated. I am not sure we have them. If JLL told us as our consultants that this is a good deal – we say the experts have told us. Then the experts on the backside tell us that everything is working well.”
- “There is a huge [financial] information differential between the LLC partner and the government partner Asset Manager team.”
- “The Army has got to get smart in financial analysis. How the developer makes money is not understood.”
- “We do not have the financial expertise in government. Hiring the two JLL folks was the smartest thing we ever did.”

- "In my discussion with other GC's at an annual meeting, most GC's are just washing their hands of the management piece, leaving the business decisions to the partner. I think this is a bad idea and that the government can easily be taken advantage of in both short and long term decisions if the GC is not engaged in the processes. "
- "The government "simply does not have access to the level of competence and expertise represented by JLL."
- "The folks on the ground seem competent; however they need to understand the financial structure of the deal and business practices in general."
- "We need to be comfortable that people on the ground have the skills to [manage assets] and not be moved so frequently. We need to watch people issue. "
- "Overall, I believe we play a bit of catch-up. I think our partners bring to the table more skills and training that by nature we don't have in our backgrounds. Training has a ways to go. Early on, learning as you go, we came up short. We were relying too much on the partner. Having JLL allowed some consistency and help in that area. The folks on the ground are still unprepared for the avalanche of admin control that is expected of them and that the project requires; despite the training provided."
- "Long term success is based adequately resourced installation team (not junior or too few people)."
- "Most important, the right people and right talent on Army team (grade, talent, education, #'s)."
- "We need qualified personnel, consultants, SJA, etc. JLL – we're looking at things that we are not used to seeing e.g., finance, development, design and construction, business management, and property management."
- "One area that needs attention, however, is education. We must determine the best and most efficient way to educate the Army side of the equation in property management, etc., to ensure that all involved can do their job in protecting the Army's interests. "
- "I am pretty good at reading financial statements and understanding finance. I have taught math and have an MBA. I made a conscious decision not to retain JLL but they have been very helpful to me."
- "Build your RCI teams early in the process, educate these personnel on every aspect of the RCI process to include lessons learned from other installations, and develop a continuity plan or system to ensure knowledge/experience is not lost when people leave."
- "A weakness in the program is how are we develop new asset mgrs and I don't see career progression that allows that to happen."
- "Provide a train-up period for installation SJAs before the process begins in earnest (three days or a week)."
- "There is no feedback from my reports. There is no training on how I should be using the information coming through PAM process that helps me manage my assets. It is pretty one way. I would want the summarized reports but we don't get them because of proprietary information."

Conclusion. Lack of asset management training creates a strategic risk for the RCI PAM program.

Recommendation. Educate asset level and portfolio level team members in key areas.

5.3.3.8 Observation 8, Conclusion, and Recommendation

Observation 8. There is not an overall training plan that identifies training required for each member of the asset management team, the status of training by installation, and the projected training dates for each individual.

- There is no RCI training manager.
- RCI identifies general training needs and contracts with MHLI or Univ of Md or JLL to provide the necessary training.
- “There is starting to become some training provided by DARCI and the U of Md course on public policy. U of Md is putting together a course on post CDMP. The more we can get to that the better. ACSIM is beginning to send their folks.”
- There is not an overall training plan that identifies training required for each member of the asset management team, the status of training by installation, the projected training dates for each individual.

Conclusion. Specialized training is not provided to program personnel.

Recommendation. Develop Army RCI education and training program that meets asset level and portfolio level training needs.

5.3.3.9 Observation 9, Conclusion, and Recommendation

Observation 9. Privatization requires different skills and competencies of housing management.

- “Government personnel do not have the training in the finance aspect of privatization.”
- “We don’t have a career field associated with asset management – it’s the same as the housing area. It is really more related to privatization management. The contracting oversight and management of garrison and DPW all need huge improvements.”
- “The old way of appropriating money is gone. What they need to know is how bankers give developers money; all the financial constructs that JLL understands, our folks need to know this as well. We need to be trained on the private perspective versus the congressional way of appropriating money. If we are going to be partners, then we need the same background as our partners. We also need to be financially savvy versus appropriation experts. The role of employees on the ground is different. It’s about culture which takes time to change. Most of the people on the ground came up under the old system.”
- “We may need a higher grade level to keep key asset management team personnel. Our asset manager is a GS-13. I don’t know what the right level is. The people we are dealing with have extensive backgrounds in this and we need people with a similar understanding and backgrounds.”
- “We are looking at the product but not so much long-term financial approach. We don’t have the expertise at the installation level to see long term but we look short term. No one has that expertise.”

Conclusion. The Army needs a privatization management career field to develop the skills and competencies to lead and manage privatization efforts.

Recommendation. The Army should develop the appropriate career fields, grade structure, and career development plans to provide Army personnel qualified to lead and manage privatization efforts.

5.3.4 PAM

5.3.4.1 Observation 1, Conclusion, and Recommendation

Observation 1. The RCI program costs in the Army budget are not included in the quarterly report; however ASA(FM&C) has developed a sand chart of the total RCI budget costs shown in Figure 5.1.

- “We do not know the cost of the RCI program.”
- “Army is paying more and may not be getting the best value. We increased BAH in some areas to make deal work. When next BAH survey is done for the next round, changes may occur.” (ASA (FM&C) staff). “RCI is not cheap. We put up front – scoring dollars. I have no idea whether developer is making money or not. The soldier is definitely getting better value. From a business perspective, I don’t know.”
- “Lifecycle cost analysis is performed by OMB to determine what is spent. Every single project goes to OSD and OMB. If MPA has gone up and AFHO has not gone down, then this is an Army issue because AFHO should have gone down.”
- “We do not have visibility. As privatization continues we have got to have metrics that we measure the developer against.”
- “Within each of the CDMP, they come in on a square foot basis to compare cost between developer and MILCON. RCI is cheaper. A NPV analysis is done to determine this in structuring the analysis. A good deal is defined by it has to be cheaper. We don’t know if this is a good deal for the Army. We’ve only compared it to MILCON but not to the market. ”
- “None of us know whether the Army is getting best value.” (ASA (FM&C) staff).
- “Stated goal is not to save money over MILCON but to get more quality into housing for soldiers. In this case, you have to say yes. MILCON was always getting cut; however more houses are getting built and community amenities are being developed as result of the CDMP negotiation. This would not occur under MILCON. There is also a shift to 3 & 4 bedrooms.”
- “You review the deal once the CDMP is complete. At that point, we don’t know if it is the best deal compared to market but we do know as compared to the way things were done previously.”

Conclusion. The data exists to provide visibility into RCI costs in the Army budget.

Recommendation. Include ASA (FM&C) sand chart in quarterly portfolio report.

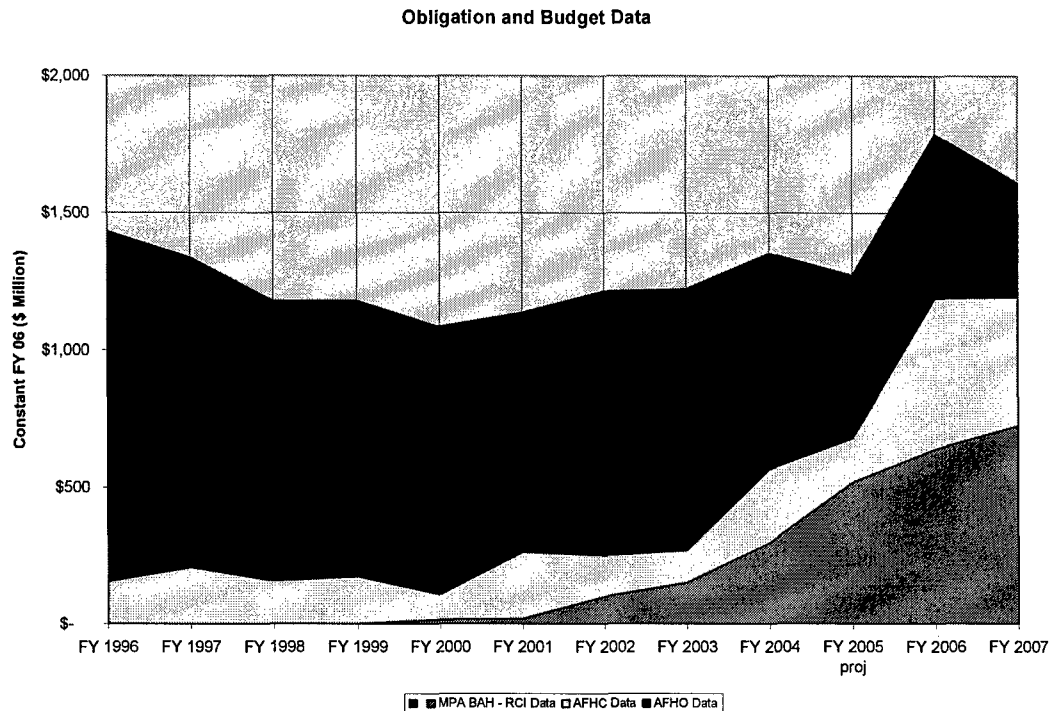


Figure 5.1 Sand Chart (Source: ASA(FM&C))

5.3.4.2 Observation 2, Conclusion, and Recommendation

Observation 2. The Portfolio and Asset Management program assesses the portfolio and helps to exchange lessons learned between installations and partners.

- “Initially we did not have portfolio management. When the JLL contract was revised, we made sure we had analytical support.”
- “The biggest advantage we bring to the table is the portfolio oversight.”
- “The PAM reflects what we’ve learned from our first projects in terms of oversight.”
- “We have CEO meetings (representatives from all partners) in addition to other opportunities like the Lessons Learned Conference to get the info out. We don’t cover proprietary information but things like how do you get insurance. The CEO meeting attendance is limited to 2 per developer. They are all invited to all of our opportunities – training, lessons learned conferences, etc.”
- “The Uber, LLC is an attempt to create a partnership where we can move money between projects served by the same developer. We are just looking for the flexibility to do this. We are working with OSD and FMBC.”

Conclusion. The RCI PAM program is effective.

Recommendation. Maintain oversight of the RCI PAM program.

5.3.4.3 Observation 3, Conclusion, and Recommendation

Observation 3. The PAM reports to not provide predictive financial measures to assess the financial status of the LLCs or the Partners.

- The Excel Dashboard and Quarterly Report are useful data.
- “PAM metrics are there and adequate; however they may change over time. PAM measures are historical and not predictive.”
- “The dashboard and the quarterly reports they don’t exactly present the level of detail that allows you to understand the financial distinctions or notice the important points unless you are able to dig deeper into those reports.”
- “I have never seen the tough questions being asked for that type of information. Questions like how much did contractor make – profit and loss, how much was spent, how much went back into the program. I’ve never seen charts reflecting what goes back into the program.”
- “It is not clear that there is a formal process to monitor the financial status of the LLCs or the partners in the Army RCI Portfolio.”
- “RCI is very good. The concept and what we have been seeing is very good but [financial] checks and balances and internal controls should be looked at.”
- When asked if the RCI office monitors financial performance of the Partners, the response was: “This is JLL’s responsibility.”

Conclusion. The quarterly report should provide predictive financial measures of LLC performance.

As an illustration of the kind of chart that may be useful, Figure 5.2 was developed using data from the quarterly reports. Figure 5.2 shows that based on occupancy and net operating income (NOI), Fort Meade and Fort Stewart are the two major concerns in the Army RCI portfolio. These charts would be useful for an executive summary of the portfolio.

Recommendation. Identify and report on financial measures that help assess the financial status of the LLCs and the Partners.

The Army is in a partnership with several companies. The quarterly report tracks the financial health of the companies. Any issue that could affect the partnership should be considered.

5.4 Summary of Processes, Measures, and Recommendations by Phase

Table 5.1 provides a visual summary of the best value observations, conclusions, and recommendations for each RCI phase.

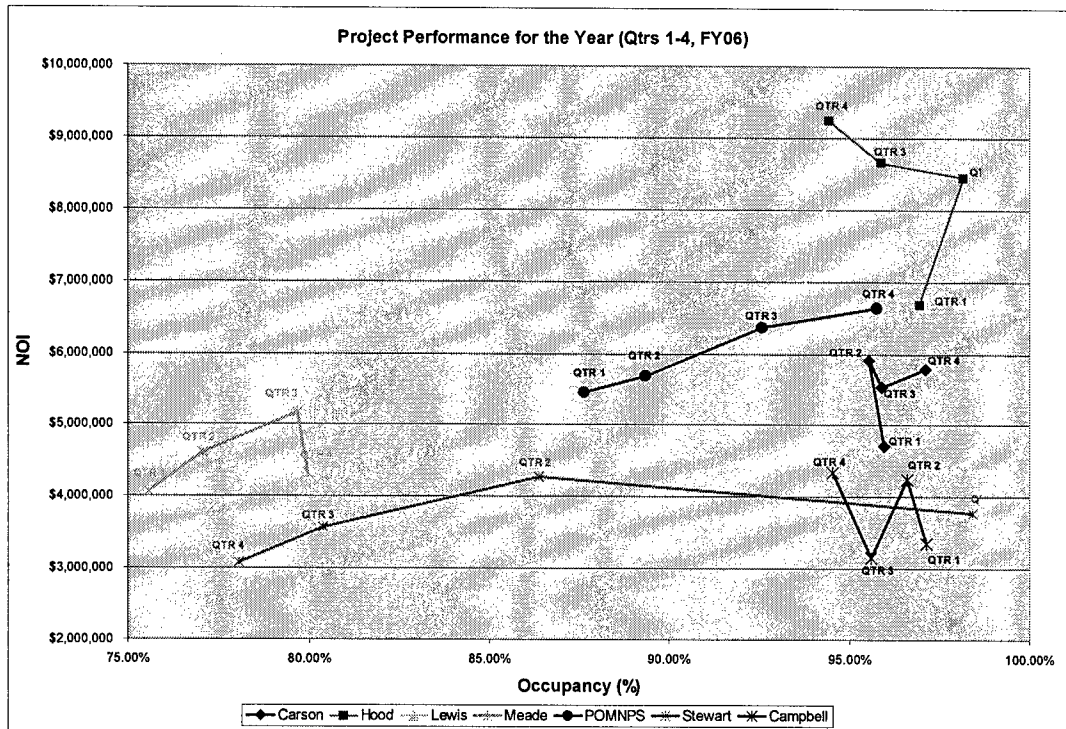


Figure 5.2 Sample Project Performance Chart

Table 5.1 Summary of Best Value Interviews

Phase	RCI Processes	Value Perspectives	Measures	Recommendations
Pre-CDMP	<ul style="list-style-type: none"> • Prepare RFQ • Conduct potential partner selection board • Financial analysis (JLL) 	<ul style="list-style-type: none"> • Contract • RCI • Army • Installation 	<ul style="list-style-type: none"> • Key selection members remain the same (installation member added) • Number of qualified bidders • Past performance of potential partners selected • Number of protests 	<ul style="list-style-type: none"> • Monitor number of qualified bidders • Consider GC, D/GC, and DPW involvement in the orals during the solicitation phase
CDMP	<ul style="list-style-type: none"> • On-site due diligence (JLL) • Pro Forma (JLL) 	<ul style="list-style-type: none"> • Installation • RCI • Soldier 	<ul style="list-style-type: none"> • Amount of scoring dollars • Installation participation 	<ul style="list-style-type: none"> • Use lessons learned to improve CDMPs
Transition	<ul style="list-style-type: none"> • Management Council • Review boards • On-site inspections • Customer satisfaction surveys • Customer service reviews • Incentive review boards • Training • Make changes to plan 	<ul style="list-style-type: none"> • Installation • Soldier • RCI 	<ul style="list-style-type: none"> • Project schedule • Quality of houses (new construction and renovations) • Occupancy • Expertise and training • Soldier satisfaction • Incentive awards 	<ul style="list-style-type: none"> • Improve training including GCs and CSMS • Review of changes to CDMP • Review of changes to incentive plans • Manage soldier expectations
PAM	<ul style="list-style-type: none"> • Monthly Dashboard (MD) • Quarterly Reports (QR) • Portfolio Asset Managers 	<ul style="list-style-type: none"> • Army • RCI • Installation • Soldier 	<ul style="list-style-type: none"> • Occupancy • Incentive fees • Total RCI cost to the Army • Total RCI team training 	<ul style="list-style-type: none"> • Show RCI total costs to Army (QR) • Monitor RCI program training status (MD and QR) • Monitor RCI portfolio financial status (MD and QR) • Monitor incentive fee awards for the portfolio (QR)

5.5 Economic Analysis (Task 5)

5.5.1 Overview

This section outlines the economic analysis aspect of best value. The methodology and results of this analysis follow. A summary of observations, conclusions, and recommendations are provided.

5.5.2 Methodology

The focus of the financial analysis conducted by the Department of Social Sciences' was to determine whether the RCI PAM process yields the best economical value for the Army. Working in conjunction with the Department of Systems Engineering, we reviewed three CDMPs: an older project, Fort Hood; a large project, Fort Bragg; and a small project, Fort Hamilton. In the course of the analysis, we analyzed the fee and incentives structure; development funding sources and project cash flows; credit spread, lender information, and bond ratings; and lastly, actual versus pro-forma performance of the projects. Rather than attempt to modify a government program to fit a corporate structure, we attempted to find best practices from the corporate sector and compare and contrast them with the RCI PAM program.

Data for this project was obtained via several means. The ASA(I&E) RCI Program Office provided initial data in the form of CDMPs. Subsequent data was obtained from interviews conducted with personnel from Morgan Stanley, GMAC, Standard and Poor's, and Lincoln Financial as well as industry textbooks and members of the Office of the Assistant Secretary of the Army (Financial Management & Comptroller)(AS A (FMC)). Several interviews were conducted in person and others were conducted via telephone and email.

5.5.3 Fee and Incentive Structure Analysis

5.5.3.1 Observation, Conclusion, and Recommendation

Observation. CDMP fees and incentives structures, on average, paid lower management fees than the industry standard. For instance, property management fees range from 8-12% of net rental income in the corporate sector, but the projects we reviewed paid between 2.5-3.5% of net rental income for property management. This is illustrated in Figure 5.3.

Conclusion. Although fees are lower than the industry standard, the development partners are eligible for potential incentive fees that can make up for the low property management fees. These incentive fees are tied to certain measurable benchmarks such as achieving high occupancy rates and scoring high on customer satisfaction ratings.

Recommendation. Continue to provide incentives for property management fees based on agreed upon metrics such as customer satisfaction and occupancy rates.



Financial Analysis-Fees & Incentives



	Hood	Bragg	Hamilton
Property Management (Incentive) <i>Based on Rental Income</i>	3.6% 1.5%	3.5% 1.0%	2.5% 2.0%
Development (Incentive) <i>Based on Development Costs</i>	3.0% 1.0%	10% (5% Def)	2.5% 1.25%
Design & Construction (Incentive) <i>Based on Construction Costs</i>	5.0% 1.0%	5.0% 1.0%	3.25% .75%

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Figure 5.3. Fee and Incentive Comparison

5.5.4 Development Funding Sources and Project Cash Flows

In analyzing the development funding sources and project cash flows, our team discovered that the majority of the funding for these projects came from the private sector. The Government and Partner investment in each of the projects was relatively small as most of the funding came from the commercial bond markets.

As confidence in the RCI program has increased, the cost of borrowing has decreased. Bond ratings have increased while credit spreads have decreased. Over time, the amount of funding from the government and partners has decreased while the bond market financing has increased. These bonds were purchased primarily by sophisticated, large institutional investors demonstrating strong confidence in these projects.

A more detailed analysis of Development Funding Sources, Project Cash Flows, Rating Agency Perspectives, Bond Ratings and Credit Spreads follows.

As a result of both the interview with the members of the Office of the ASA (FMC) and our analysis of the three CDMPs, the team determined that it was essential to analyze two aspects of the RCI PAM project. The first of these was an examination of the sources of funding for the three different projects. The second aspect analyzed the estimated cash flows in each of the three CDMPs. We analyzed these flows to determine the returns that each partner in the LLC receives under each CDMP.

5.5.4.1 Observation, Conclusion, and Recommendation

Observation 1. Throughout the initial interviews, the team heard concerns that the partners were putting very little capital at risk. The team decided that it would be appropriate to determine the proportion of capital that all parties contributed to the projects. Our analysis led to a very interesting conclusion.

The team's initial analysis discovered that the CDMPs included two items as part of the funding sources that are not "truly" an outlay of actual capital. These items are 1) NOI reinvested into project and 2) Interest gained from cash deposited in interest-bearing accounts. The team adjusted the Total Funding for Development to account for this fact which allowed the team to focus on the amount of capital contributed by each party.

Observation 2. Additionally, the team heard concerns that the rates of return to the development Partners were not proportional to the amount of equity invested in the projects. In order to analyze cash flows, the team simplified this analysis by determining that the majority of cash flows fell into one of three categories:

1. Cash to Partner
2. Debt Service
3. Cash Reinvested into Project

The Cash to Partner included Fees and Incentives, Preferred Equity, and Return on Equity based on the CDMP "Waterfall" concept. The team ignored relatively small (percentage-wise) cash flows in the name of commonality. These small percentages did not affect the basic analysis of cash flows in any manner.

Conclusion. Figure 5.4 summarizes the team's analysis of Development Funding and Project Cash Flows for each of the three projects analyzed.

Both the Partner and Government are contributing a very small proportion of the overall funding for all projects. The Lenders (including the debt holders) shoulder the majority of project risk. This capital structure mirrors industry best practices. Real estate developers attempt to maximize levels of debt financing in order to achieve higher returns on equity. Ultimately, the market determines the demand for the debt. If the project is attractive, the LLC will be able to finance a large percentage of capital by issuing debt. The results below demonstrate that there is substantial investor interest for RCI project debt.

The Partners contribute between 2% to 5% of the overall capital and receive a return on equity that is capped at approximately 15%. This equates to about 15% to 20% of Total Cash Flow. The Government contributes 4% to 20% (projects vary widely due to scope and lessons learned) and return is reinvested into project. This return ranges fall within 50% to 60% of the Total Cash Flow.

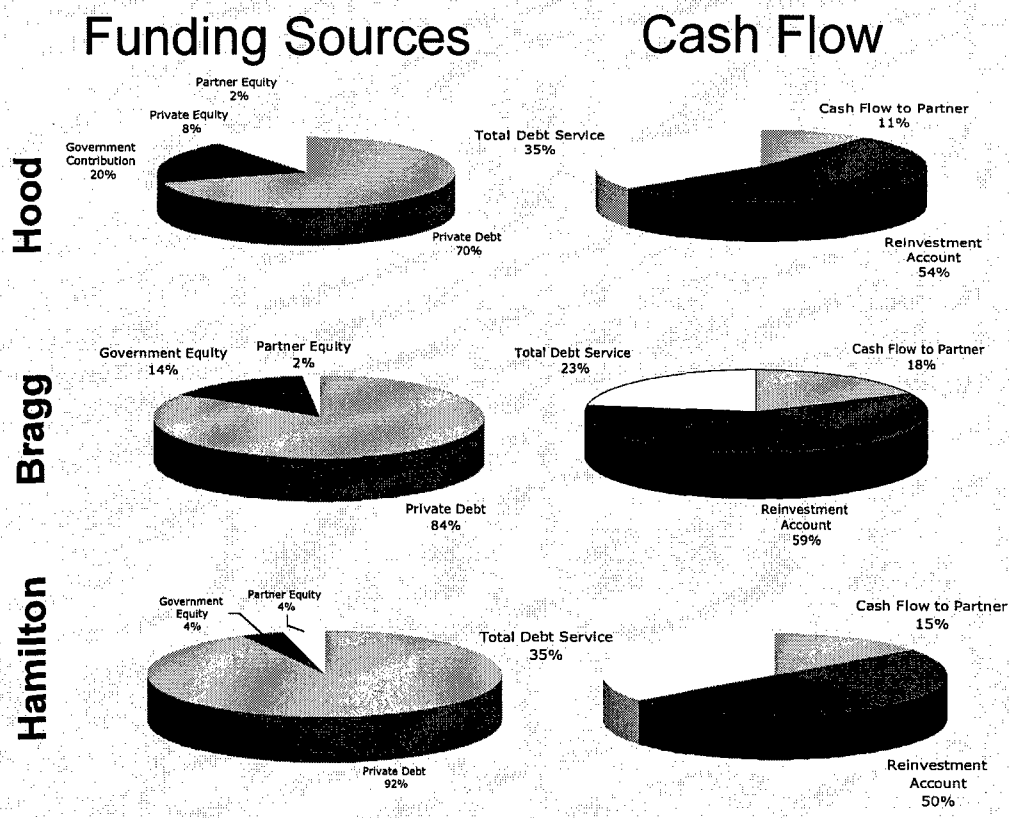


Figure 5.4 Development Funding and Cash Flows

Recommendation 1. Continue to maximize the use of debt financing to allow fair and adequate returns to development Partner while minimizing both Partner and Government initial capital requirements.

Recommendation 2. Continue to allow individual projects flexibility in determining the amount of cash that flows to the partners based on performance metrics.

Recommendation 3. All 3 projects CDMPs were very different; this particular product is not standardized. The team realized that each project and partner is unique. We recommended that the RCI team explore the possibility of creating a standardized CDMP summary format to facilitate analysis and comparison of different projects. A formal audit process would be extremely difficult utilizing given current disparate documentation.

5.5.5 Rating Agency Perspective on RCI Bonds

The team interviewed analysts from Standard and Poor's (S&P) Rating Service to obtain their assessment of the risks inherent in the bond structures. S&P considers the major risk to be the Congressional appropriations risk for BAH cash flows. The bonds have not achieved AAA ratings on their own due to this risk. The earlier deals were rated at the A level, but newer deals have generally been AA-rated. Some deals have been insured by Ambac or MBIA (bond rating agencies). Bond insurance allows the deals to be rated at the insurer's rating which is generally AAA.

5.5.5.1 Observation, Conclusion, and Recommendation

Observation 1. In addition to the appropriations risk, S&P noted several areas they evaluate for each bond. Investors consider the possibility that the privatized housing may not be needed by the military. They prefer to participate in deals involving military posts that are key and essential (i.e., Fort Hood or Fort Bragg). Investors also evaluate the ability of the Partner to rent the units to non-military members in the event demand from soldiers is insufficient. They prefer major metropolitan areas where demand for housing is high. As in any financial transaction, debt service coverage, free cash flows, equity participation, and loan to value ratios are key considerations.

Observation 2. Finally, investors, like the military, expect projects to be completed on time and on budget. Because the developers participating in RCI are major developers with substantial financial strength, S&P is not concerned with their ability to complete the projects and considers the flexibility of the Army's program to be particularly beneficial¹². The S&P analysts indicated that the RCI developers were completely distinct from developers of low income housing. RCI developers have strong balance sheets and histories of quality and performance. S&P considers the risk of partner nonperformance to be low. Construction risk is mitigated by military expertise in construction, reasonable development schedules, and the flexibility of the deals to renegotiate if issues arise. Because of their favorable experience and the quality of the partners, S&P no longer requires payment and performance bonds.

Conclusion. After considering all of the risks inherent in the RCI bonds, both the rating agencies and investors have concluded that the bonds are low-risk. As a result, bond ratings are high and the returns that bond investors demand has declined.

Recommendation. Continue to work with partners with strong track records in real estate construction and management. Structure partnerships to ensure that debt to equity ratios and cash flows continue to be attractive to investors.

5.5.6 Bond Ratings and Credit Spreads

5.5.6.1 Observations, Conclusion, and Recommendation

According to the S&Ps Public Finance Report Card: Military Housing (4 April 2005), "The DoD housing allowance appropriation has had steady increases over time, and demand for the housing has usually been very strong, even when bases are located in weak real estate markets. Variations in the ratings assigned are due to the strength of the bases where the housing projects are located, demand for housing on the base, the strength of the developers, the financial soundness of the real estate projects, the quality of the projects, and the debt service coverage and financial leverage of the projects."

Observation 1. Figure 5.5 shows the bond ratings distribution for military housing bonds. Fifty-one percent of the bonds achieved the highest rating, as they are insured by bond insurance companies, such as Ambac or MBIA. The majority of the remaining bonds were rated AA or AA-.

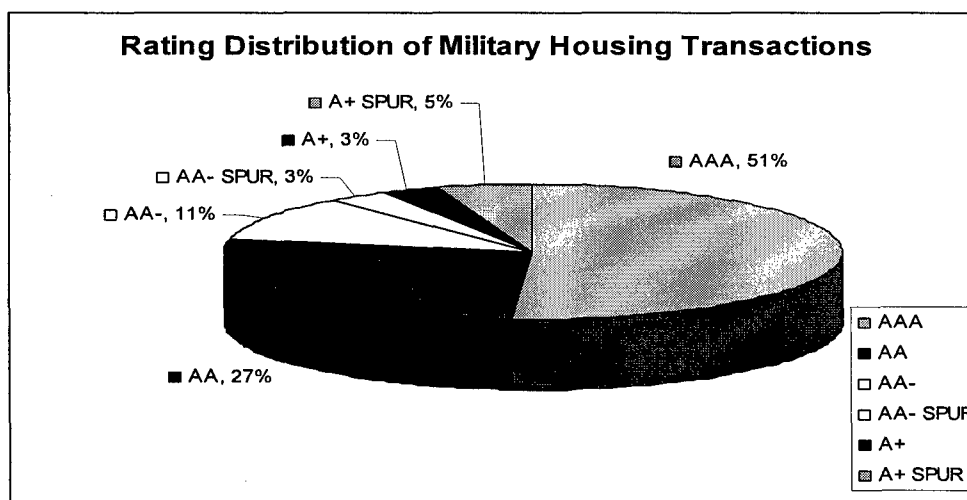


Figure 5.5 Bond Ratings

Observation 2. Credit spreads reflect the risk of bond downgrade or default as priced in the credit markets. In addition to these spreads, bond insurance fees are charged if the bonds are insured. Figure 5.6 shows credit spreads and fees charged for the specific installations we reviewed, ordered by privatization date: Fort Hood, Fort Bragg, and Fort Hamilton.

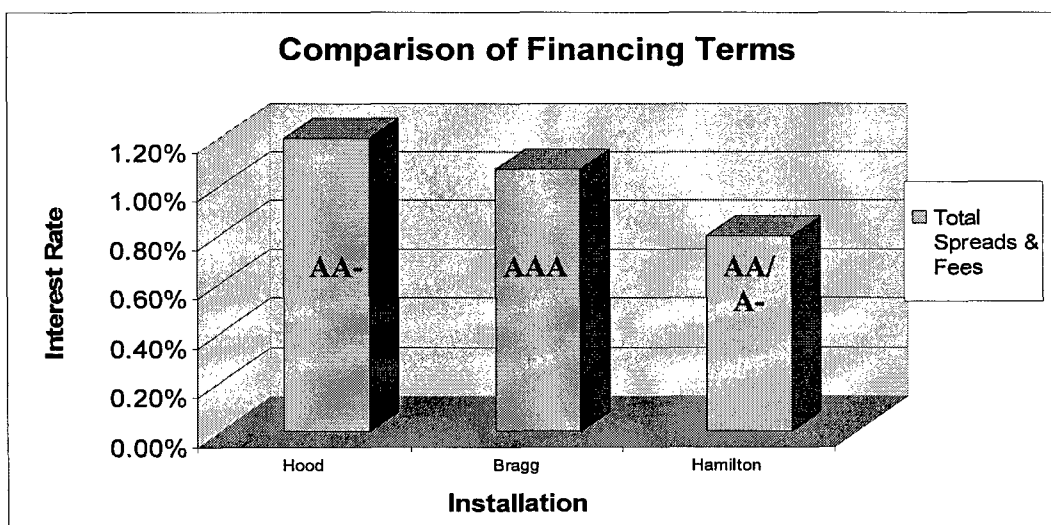


Figure 5.6 Credit Spreads and Fees

Conclusion. The spreads charged on earlier bonds were higher than those charged on more recent bonds, irrespective of credit rating. This reflects the market's increasing comfort level with the bonds and the current practice of requiring lenders to compete for the debt financing. Considering the substantial debt incurred by each project, reducing the credit spreads represents a significant savings for the RCI partnerships.

Recommendation. Continue to work with rating agencies and bond underwriters to ensure bond deals are structured to achieve the most attractive financing rates.

5.5.7 Actual Performance versus Pro-Forma

5.5.7.1 Observation, Conclusion, and Recommendation

Observation. In our analysis of the actual performance versus pro-forma forecasts of the projects, the trend was that overall; the projects are performing better than projected. A few projects were experiencing challenges during the course of our study and data generated since the completion of our study illustrates that some struggling projects have improved their performance.

Conclusion. A major reason that the projects are outperforming expectations is that as time progresses and partners, as well as the Army, are able to study previous projects, more accurate and conservative estimates are being generated that allow for more effective project planning.

Recommendation. It is vital that the projects retain their current flexibility. This ability allows the partnership to enact business changes with minimal bureaucracy and allows the project managers to react quickly in changing environments.

5.5.8 Risks

Additionally, the team identified four potential financial risks as a result of the analysis of the three CDMPs. The team analyzed the CDMPs in order to determine if a partner might have the incentive to attempt to collect additional fees by deliberately modifying either the development plan or modifying current operations.

5.5.8.1 Fees and Incentives Risk: Observation, Conclusion, and Recommendation

Observation. The team found that the incentive structure in place is very effective in discouraging any undesirable partner actions. The partner in all cases would lose more money due to a loss of incentive fees than the amount made by increasing operation fees. The metric that drives the majority of incentive fees is "Occupancy Rate."

Conclusion. Effective incentives are in place to maximize this rate for the benefit of the overall project.

Recommendation. Maintain incentive fee structure and adjust accordingly depending on the individual project and lessons learned.

5.5.8.2 Construction Risk: Observation, Conclusion, and Recommendation

Observation. The Construction Plan is dependent on an assumed Occupancy Rate. This assumed rate forecasts a cash flow that is to be reinvested into future construction and improvements.

Conclusion. There is the potential that the project can have a lower occupancy rate than predicted, which will result in either a delay in the Construction Plan or a lower quality product. These two consequences can result in additional vacancies, which can lead to a lower amount of

cash flow than forecasted for the ongoing Construction Plan. A potential downward spiral exists that could potentially cause a project to fail.

Recommendation. The RCI team must continue to monitor all projects and have a contingency plan in place in order to react to a Construction risk Scenario.

5.5.8.3 Deployment Risk: Observation, Conclusion, and Recommendations

Observation. During the course of the study, the entire Third Infantry Division was deployed to Iraq. This led to a challenging situation at Ft. Stewart, where three of the four brigades of the Third Infantry Division are located. Occupancy rates dropped below forecasted levels during the deployment.

Conclusion. The team attributed this drop to several factors. First, there are few incentives for the families to stay at the home post, especially if they have young children. A spouse can move back to his, or her, hometown and collect housing allowance while potentially living "rent-free" (live with parents). The spouse can also take advantage of the family support structure that most likely exists in that hometown. Second, when a unit deploys they tend to take a large portion of the medical staff from the post hospital. This fact also encourages the family to move to take advantage of the hometown support structure.

Recommendation 1. The team recommends that the RCI team study the situation at Ft. Stewart and compare and contrast with other installations. We believe that with proper incentives and marketing, the installations can successfully retain a higher level of families in post housing.

Recommendation 2. The team recommends that the RCI team analyze planned deployments and adjust the business model to mitigate the effects of a possible lower occupancy rate.

5.5.8.4 Flip Risk: Observation, Conclusion, and Recommendation

Observation. Some interviewees expressed concern that the partner might decide to collect the initial development fees and quickly "flip," or sell the project to another developer.

Conclusion. This is a valid concern but the team believes that the incentive structure in place successfully mitigates the risk. The majority of fees collected by the partner are property management fees. These fees are paid every year and include a sizable incentive fee if certain metrics are met. The developer has strong incentives to ensure that he keeps occupancy rates high in order to collect these fees and incentive payments. Additionally, the developer has a great incentive to conduct additional construction in the "out-years." If the project is proceeding according to the forecast, the developer can either rebuild or renovate and collect additional fees. The team also believes that if a developer sells his interest to another developer the project is at very little risk. The LLC has to approve the sale and can ensure that the new partner is financially sound and solvent. We also believe that because the projects are relatively low risk (due to the fact that the income stream is "almost guaranteed") firms will position this investment as a less risky portion of their overall portfolio of projects.

Recommendation. Continue to foster the current partnership relationship between the government and partner. The high probability of income stream to the projects and attractive return to the partner are factors that will discourage a partner selling their interest.

Chapter 6. Integration of Best Practices

6.1 Overview

This chapter focuses on the extent to which the Army has been able to successfully integrate best practices from the private sector into the RCI PAM program. It is through this area that we sought a means to benchmark the effectiveness of the RCI PAM program against similar ventures in the private sector. The results of the analysis show similarities, differences, and opportunities for improvements.

6.2 Structure for Task 3

The questions supporting this task focus on integration of components of industry best practice, where applicable, into the RCI PAM program. The statement of work identified the preliminary study questions. Five questions were defined to determine to what extent the RCI PAM program had integrated best practices from the private sector.

1. Identify appropriate private or public sector organizations that are similar to RCI PAM with respect to:
 - Real estate portfolio management
 - Government involvement (city, state, federal)
2. What are RCI PAM compliance and auditing processes?
3. Assess how public / private sector organizations approach Portfolio and Asset Management to achieve their stated program objectives.
 - What are the objectives of RCI PAM?
 - What are the portfolio management objectives for these private or public sector organizations?
 - How do they measure achieving these objectives?
 - What portfolio management systems do private or public sector organizations use to monitor performance in conjunction with the stated objectives?
 - How do these organizations monitor legal compliance?
 - How do these organizations obtain and use third party firms to enhance the oversight process
 - How do these organizations separate the management duties of asset and portfolio managers?
 - How do these organizations separate auditing duties between their portfolio managers and external auditors?
4. Assess the effectiveness of the Army's PAM program in meeting its stated objectives:
 - What are the portfolio management objectives for PAM?
 - How does the PAM process measure achieving these objectives?
 - What portfolio management systems does the PAM program use to monitor performance in conjunction with their stated program objectives?
 - How does the PAM process monitor legal compliance?
 - How does the PAM program obtain and use third party firms to enhance the oversight process :
 - How does the PAM process separate the management duties of asset and portfolio managers?

- How does the PAM process separate auditing duties between their portfolio managers and external auditors?
5. Compare responses to 4. and 5. to determine potential enhancements to the RCI PAM program.

Pursuant to these questions, we focused our analysis on four specific areas of interests, which included portfolio objectives, performance measuring and monitoring systems, organizational structure and delineation of duties, and the use of 3rd parties.

6.3 Data Collection

Our data collection efforts for this task began with the development of a list of interviewees and a set of questions based on the four areas of interest and aligned with the task and sub-tasks specified in the statement of work. Our objective was identify the right mix of individuals that would provide us with an adequate amount of information stemming from broad ranges of experience and training both in the private sector and RCI, as well as at the project and corporate levels.

6.3.1 Selected Interviewees

We developed our list of interviewees by first establishing two categories: 1) partner project teams at the installations and 2) corporate-level personnel. This enabled us to obtain useful perspectives ranging from individuals managing the projects at the lowest levels to corporate-level officers with considerable experience in similar large-scale ventures. We should note that our interviews of personnel at the corporate level extended beyond current partners and included others with considerable experience in private sector portfolio and asset management (such as LaSalle investments). **Table 6.1 lists the positions of the various personnel we interviewed.**

Table 6.1 Positions of Individuals Interviewed at Project and Corporate levels

Installations, Positions and Partners Represented			Corporate Level Positions
Fort Belvoir			
Fort Bliss	Partner Side	Clark-Pinnacle	Chief Financial Officer (Picerne)
Fort Bragg	Project Director	GMH	President (Clark Builders)
Fort Carson	Team Member	Picerne	Senior VP (GMH Military Housing)
Fort Hood	Financial Rep.	Actus	Senior VP, Asset Management (Actus)
Fort Leonard Wood		American Eagle	Managing Director (LaSalle Investments)
Fort Lewis	Army side	Equity	
Fort Meade	RCI Asset		
Fort Stewart	Management		
Presidio of Monterey	Teams		
Schofield Barracks			

6.3.2 Interview Approach

We structured our questions according to a three-phased approach to obtaining information from the interviewees. First, we focused on their experiences in private sector endeavors with

Table 6.2 Refined Set of Questions

Phase 1	<ol style="list-style-type: none"> 1) What are some real estate development ventures that you have engaged in that are comparable to the RCI Program? 2) What are your Portfolio and Asset management objectives in these ventures? <ol style="list-style-type: none"> a. How do you measure the achievement of these objectives? b. What management systems do you use to monitor performance in conjunction with these objectives? c. What management systems do your lender(s) use to monitor performance? 3) Explain your management structure (i.e., bottom to top with respect to managing a project or set of projects). <ol style="list-style-type: none"> a. How do you separate the duties of the Portfolio and Asset Managers? b. What about the auditing duties of the Portfolio Manager relative to external auditors? c. Are there any regulatory guidelines or rules regarding the conditions under which you can employ relatives of employees to work on a project? d. Do you have any specific internal prohibitions with respect to this practice? e. Suppose you are managing a partnership project at a particular location and your partner decides to establish a separate contract with the financial/investment arm of your company in order to provide them with better financial analysis/management capabilities with respect to the project. Do you have internal procedures to keep these two "independent" aspects of your company separate?
Phase 2	<ol style="list-style-type: none"> 4) How does the RCI program compare to these other real estate development ventures? <ol style="list-style-type: none"> a. How do your private sector objectives compare to your objectives in the RCI program? If they are different, how and why? b. Have you been able to incorporate "Best Practices" into this program (i.e., has it been a simple integration of these practices or has the uniqueness of RCI required new approaches altogether)? c. How does the RCI management structure compare to that typically used in the private sector? d. What are your concerns with this program? e. Where do you see the principle business risk with this program? f. How are you employing smart real estate development and management techniques, to mitigate this risk or shift it to a part of the business operation that impacts the bottom line for your company less?
Phase 3	<ol style="list-style-type: none"> 5) How does training figure into your management plan for RCI? <ol style="list-style-type: none"> a. What type skills are required for individuals directly involved in the RCI program (e.g., management, day-to-day operations, finance, etc.)? b. If individuals do not fully possess these skills, what types of training or additional training do you provide to further develop them? c. As this is a 50-year venture, what type of continuing education do you provide or do you feel is needed and what certification results from your training and education program? d. If training is provided in-house, what benchmarks do you use to develop your training and education program? If training is contracted, who provides this training?

parallels to the RCI program. This enabled us to develop our understanding of how companies conducted business in private sector real estate ventures in the contexts of our four areas of interest. In the second phase, our questions transitioned to the RCI Program itself, focusing the partner's assessment of how the RCI Program compares to similar private sector programs. The final phase of questions focused on how partners integrate and conduct training to develop the skills and experience of their personnel. Table 6.2 summarizes the actual questions used in the analysis of Task 3.

6.4 Data Analysis

6.4.1 Overview

After conducting all interviews, we documented the responses in a master results file. To facilitate analysis, we collated all responses by question, annotating the name, position, and experience of each interviewee. This allowed us to rapidly identify trends in each of the areas and to qualify responses between interviewees.

6.4.2 Binning the Data

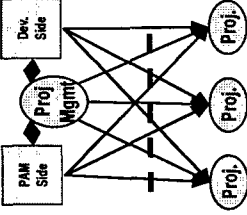
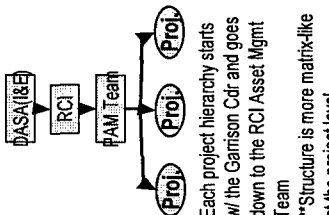
Once we collated the data, we then turned to extracting the salient points and binning them with respect to the area of interest they applied to. Binning the data in this way enabled us to visualize private sector practices relative to RCI PAM practices. Moreover, it facilitated a more detailed analysis to identify congruencies between the private sector and the RCI PAM program. Table 6.3 reflects the compilation of the binned data.

6.4.3 Method for Identifying Congruencies

While our binned data in Table 6.3 enabled us to quickly compare the best practices used in the private sector to the practices used in RCI, it does not adequately tell the story. Accordingly, the next step in our analysis involved a closer look at the data in order to ascertain where the congruencies lay between the two within each area of interest. To that end, we used a Venn diagram structure shown in Figure 6.1. The diagram consists of areas A, B, and C. Area A denotes best practices used in the private sector that have not been integrated into RCI for various reasons. Area C denotes the practices used exclusively in RCI. Lastly, Area B reflects the “overlap” or congruencies between Areas A and C, which represents the extent to which best practices are utilized in the RCI program. There are two additional points to consider when viewing the diagram:

- 1) The portion of Area A denoting best practices not integrated into RCI does not necessarily indicate a weakness or failure on the part of the RCI program. While in some cases it may indicate a missed opportunity to exploit certain advantageous practices, in others it is a case of an inappropriate fit whereby the practice simply does not align well with the RCI program.
- 2) The portion of Area C that reflects RCI-specific practices should be viewed as the evolution of new approaches necessitated by the “newness” and uniqueness of the RCI program. In short, this program is really quite different from any private sector ventures, which has required the development of new practices to achieve goals and protect interests.

Table 6.3 Compilation of Interview Data

	Portfolio Objectives	Performance Measuring & Monitoring Systems			Organizational Structure & Separation of Duties		Use of 3 rd Party Entities
		Measuring Systems	Monitoring Systems	Performance Summary	Matrix structure	Portfolio Level	
Private Sector	<ul style="list-style-type: none"> In general, primary objective is to maximize the long-term value and profitability of the asset(s) to the company Generally, no long-term commitment to product, rather concerned about long-term value to company 	<ul style="list-style-type: none"> Financial Indicators <ul style="list-style-type: none"> - Budget - NOI Economic Indicators <ul style="list-style-type: none"> - Occupancy - Cust. Svc. metrics Maintainability <ul style="list-style-type: none"> - QC/QA - Schedule 	<ul style="list-style-type: none"> Reports <ul style="list-style-type: none"> • Expenses/costs relative to budget • Occupancy rates • Cust. Svc. Surveys • Maintenance inspections/reports • On-site inspections • Progress vs. schedule 	<ul style="list-style-type: none"> One page chart or spreadsheet that compares actual performance to selected metrics (schedule, budget, NOI, QA, etc.). Actual chart set up varies between partners, but concept is consistent 	<ul style="list-style-type: none"> Matrix structure  <p>Each Proj consists of:</p> <ul style="list-style-type: none"> Dev/Constr. Mgr, Asset Mgr, Prop Mgr, & Proj Dir. 	<ul style="list-style-type: none"> Portfolio Level <ul style="list-style-type: none"> - Provide guidance & corp. philosophy - Monitor variances in schedule & budget - Major decisions for issues "outside the margins" Asset Level <ul style="list-style-type: none"> - Day-to-day opns & decisions "within the margins" - Financial mgmt with respect to disposition, acquisition, or selling of the assets <p>Level of control dictated by project scope and the experience of the team on the ground</p>	<ul style="list-style-type: none"> QC/QA for construction (site inspections, adherence to codes, etc.) General contracting (construction techniques, innovations, local businesses, etc.) Financial auditing and analyses Legal consulting (code compliance, local/state laws, environmental issues, historical issues)
RCI	<ul style="list-style-type: none"> Customer satisfaction Sound financial management Eliminating inadequate housing Sustainable construction and renovation Long-term commitment to the assets (50 years) 	<ul style="list-style-type: none"> Financial <ul style="list-style-type: none"> - DCR - Incentive fees Financial stability of partner <ul style="list-style-type: none"> • Development • Schedule • Compliance w/ ISR & RCI stds Operations <ul style="list-style-type: none"> - Occupancy - NOI Operating expenses Resident satisfaction 	<ul style="list-style-type: none"> Financial reports <ul style="list-style-type: none"> • Special purpose reviews • Site visits • Compliance checklists • Budget reviews • Ground lease compliance • Insurance reviews • Document management • Resident satisfaction surveys 	<ul style="list-style-type: none"> Reports <ul style="list-style-type: none"> - Monthly dashboard - PEP report - Quarterly reports - Annual reports ... - Large spreadsheets 	<ul style="list-style-type: none"> Hierarchical structure  <p>Each project hierarchy starts w/ the Garrison Cdr and goes down to the RCI Asset Mgmt Team</p> <p>**Structure is more matrix-like at the project level</p>	<ul style="list-style-type: none"> Portfolio Level <ul style="list-style-type: none"> - Oversight of assets & opns across the entire portfolio (all installations) - Provide key lessons learned to enhance existing projects & drive "BMP" approach for future projects - Facilitate transition, training, etc. - Review reports, etc. - Major decisions (outside CDMP, >\$25K) Asset Level <ul style="list-style-type: none"> - Day-to-day oversight of assets & opns of a specific project <p>Level of higher control/intervention standard across all installations (eg, Major Decisions policy memo)</p>	<ul style="list-style-type: none"> Partners use 3rd parties in the RCI program, "typically with the Army's consent." (PAM Handbook) Army has many review mechanisms: <ul style="list-style-type: none"> - Congress - OSD - ACSIM - GAO - AAA - FM&C, and others

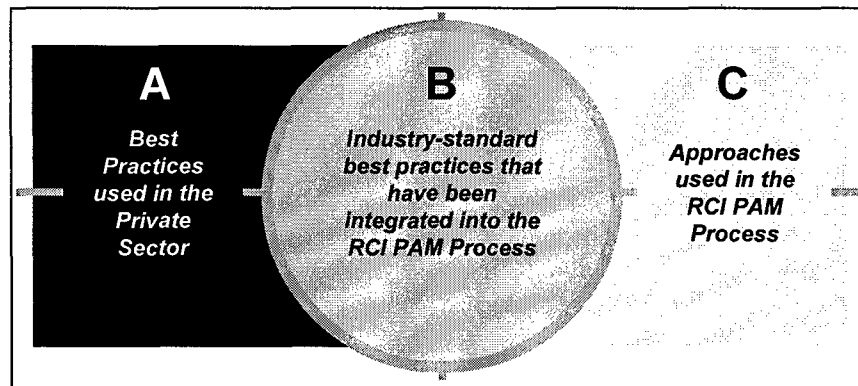


Figure 6.1 Venn diagram

6.5 Observations, Conclusions, and Recommendations

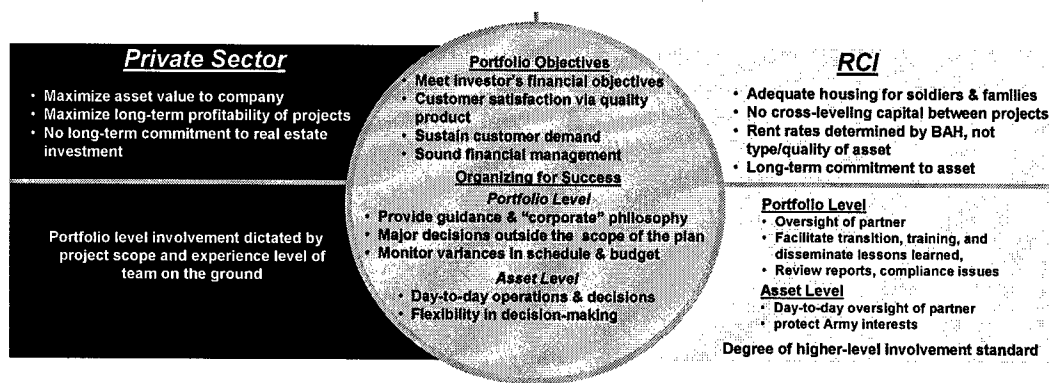
Using the methodology described above, we analyzed each of the four focus areas and identified any congruencies and in-congruencies between private sector and RCI PAM practices. This yielded the observations, conclusions, and recommendations for each of the four focus areas addressed in the following paragraphs. For the purposes of discussion and logical presentation, it made sense to group the four areas into two overarching categories that encapsulate the relationships between the areas. The first category focuses on private sector and RCI portfolio objectives and then the organizational structures used in both to achieve those objectives. The second category addresses the risks to the objectives, focusing on the performance measuring and monitoring systems used in each arena, as well as how independent 3rd parties are utilized to supplement or enhance these systems.

6.5.1 Portfolio Objectives and Organizational Structure

This first category presents a logical combination of these two focus areas. In essence, it reflects the azimuth that the organizations have set for themselves in terms of their objectives and how they have task-organized to achieve those objectives. This is the ground truth picture of the state of “things” prior to the actual execution of portfolio and asset management. Figure 6.3 presents the data in this category according to our methodology, along with the conclusions and recommendations we draw from them.

6.5.1.1 Observation, Conclusion, and Recommendation

Observation. As the figure clearly shows, there is considerable alignment between the practices used in the private sector and those used in RCI. The key differences between the two revolve around the primary portfolio objectives and some of the methods used to achieve them. In the private sector, the primary objective is to maximize the long-term value of the assets and the long-term profitability to the company. Companies use various methods to achieve this objective. Among others, these include cross-leveling capital from highly profitable projects to



Observations	Conclusions	Recommendations for Improvement
<p>1. Portfolio objectives are aligned in the areas of financial objectives, customer needs, & financial management.</p> <p>2. The organization and delineation of duties and responsibilities to facilitate objectives within RCI PAM closely parallel those in the private sector</p>	<p>1. The Army could take advantage of other best practices to meet PAM objectives</p> <ul style="list-style-type: none"> - Cross-leveling capital between projects - More effective ways to attract occupants to mitigate "haves vs. have-nots" problems <p>2. The added duties in RCI are necessary to protect Army interests & work well</p> <p>3. Lack of experience and skill sets at the installation level are compensated for by Portfolio-level involvement and outsourced expertise (JLL)</p>	<p>1. Consider hiring personnel at the asset level that have the skill sets commensurate with PAM in the private sector</p> <ul style="list-style-type: none"> - Will help to develop core-competencies <p>2. Continue to develop the RCI training program to develop necessary PAM skill sets at all levels</p> <p>3. Explore ways to:</p> <ul style="list-style-type: none"> - Allow partners to cross-level capital - More aggressively and creatively employ rental concessions commensurate with those used in the private sector

Figure 6.2 Portfolio Objectives

struggling projects and constructing a competitive rent structure based on the type and quality of houses they are marketing. The former affords them the flexibility to sustain and enhance their portfolio by "sharing the wealth" between them while the latter helps them to keep pace with competitors by making their product more appealing to customers.

In the RCI PAM program, the primary objective is simply to achieve adequate and sustainable housing for soldiers and their families, thereby enhancing their overall quality of life and satisfaction. Contrary to the private sector, there is currently no provision for cross-leveling capital between the projects. In addition, rent structures for the primary customers (soldiers) are based purely on BAH levels. Thus, a soldier pays rent based on his or her grade and time in service rather than the type/quality of house he or she chooses to rent.

Other differences between RCI PAM and the private sector stem from the uniqueness of RCI and the skills and experience among personnel at the portfolio and asset levels. In the case of the former, we found that the added duties involved with RCI PAM are necessary inclusions and specifically serve to protect Army and government interests in the endeavor. In the latter, we found that the general lack of experience and skills among Army personnel hindered their ability to perform their organizational duties and responsibilities. The following comments from interviewees shed some light in this area:

- "RCI teams on the installations are woefully under-trained and undereducated"
- "RCI requires the same skill sets required in the private sector. As an exception, property managers require some training on military culture, customs, intricacies, etc."

Conclusion. Based on our observations, while the RCI program has adopted a path and structure commensurate with similar private sector endeavors, it could take advantage of other industry-standard practices to further enhance objective attainment. As it stands, the existing state of affairs is having, or could have, a couple of key impacts on the RCI PAM process and the program in general. First, by disallowing partners the ability to cross-level capital, the program forces individual projects to “sink or swim” on their own merits. This does not seem to make good sense from a business and investment perspective. As one interviewee noted, “we cannot cross-level money or resources between our projects in the portfolio, which we certainly would do in the private sector.” Cross-leveling capital would enable partners to shift capital from flourishing projects to struggling ones, thereby enhancing the value of the latter and serving to achieve their overarching objective of maximizing the assets’ value to the company. This type of practice would also serve the Army’s primary objective of obtaining adequate housing, as it would help to increase the quality of housing across the portfolio and therefore better serve soldiers as they move between installations.

The second impact stems from the existing rent structure, which has created problems, dubbed “haves versus have-nots”, at virtually every installation we visited. The nature of the problem is simply that, at any particular installation, you have customers who 1) receive the same BAH, 2) live in very close proximity to each other, but 3) live in housing that is disparate both in quality and size. The following excerpts from our interviews reveal some concern about these problems:

1. “Higher ranks are subsidizing the services of the lower ranks... [as such] the higher ranking folks have to take a cut in service in order to accommodate the lower ranks. In short, we are creating a socialist community... This is okay for now, but in the long run, this is going to present a problem as soldiers realize they can get much more than they’re getting.”
2. “We [the Army] need to rework the payment structure with respect to BAH in order to mitigate the growing problems with the ‘haves vs. the have-nots’.”

As an example, at one particular installation, we found senior enlisted soldiers living in newly constructed homes with modern amenities, energy-efficient features, and considerably more living space than legacy housing. No more than fifty yards away, soldiers of the same rank live in legacy housing that, in this case, is decades old, has been poorly maintained, and is inefficient. Despite the glaring differences between the type and quality of the houses in this case, the soldiers pay the exact same rent simply because that is the BAH they receive. This has resulted in problems among those living in legacy quarters – the “have-nots” – as they feel that they should not have to pay the same level of rent as those living in new homes. By private sector standards, they have a valid point, as houses with such different qualities would not merit the same rental rate. In the end, this problem could have far greater impacts than just dissatisfaction. Specifically, the program runs the risk of decreasing occupancy rates among certain ranks simply because those soldiers perceive that they can obtain a bigger and better house for their money on the private sector market. Clearly, a decrease in occupancy rates will affect a project’s NOI and therefore the long-term quality of the housing.

Recommendation. Foremost, success in this endeavor will be predicated on the degree to which the personnel charged with day-to-day execution and oversight understands the direction of the program and the desired end state. Accordingly, some effort should be made to hire personnel that have the skills commensurate with PAM in the private sector. This is particularly true at the asset level, and is something that the training program must address. Beyond this, we recommend that the RCI office explore ways to 1) facilitate the cross-leveling of capital and 2) more creatively and aggressively employ rental concessions comparable to those used in the private sector. In our estimation, the first of these provides the partners with a greater degree of flexibility that would enhance the overall value of the Army's portfolio and would help to establish more common standards between installations and thereby better serve soldiers and their families. We should note here that, since the start of our study, the RCI office has undertaken efforts to analyze this option which would allow partners to cross-level capital between specific projects they manage.

The second piece of this recommendation addresses the problems between the "haves" and the "have-nots" at various installations. In short, the NOI of any project is directly affected by the occupancy levels therein. As such, it becomes necessary to explore any and every way possible to entice soldiers to remain in RCI housing. Although the partners currently have the ability to offer certain types of rental concessions, they do not appear to be enough, as the aforementioned problem has flourished. One possibility for a more creative means to mitigate this problem involves adjusting the BAH structure such that it is more directly correlated to the type/quality of house a soldier chooses to occupy. For example, when a soldier currently reports to a new installation, he/she is presented with two options: live on post or live off post. If he/she chooses the latter, then they get their full BAH started during in-processing and are on their own to find a home of their choosing. If they elect to live on post, they are offered a particular house that will cost them their entire BAH regardless of whether that house is new or old, renovated or not. A possible change to consider might be such that when the soldier elects to live on post, there is a second branch to the process that addresses the type of house being offered. If the house is a newly constructed home, then the soldier agrees to pay the full BAH amount; if the house is old MILCON housing that has not been renovated, then perhaps he/she pays less rent and retains the difference. While some might argue that such a concession would negatively affect the NOI and therefore project schedules and budget, it would seem that an occupied house that draws some BAH is better than an unoccupied house that draws nothing at all. Ultimately, it is a possibility worth further exploration and analysis and thus is part of our recommendation.

6.5.2 Performance Measuring/Monitoring Systems and the Use of 3rd Parties

Whereby the first category addressed the desired objectives and the manner in which private sector companies and the Army elect to organize themselves to achieve those objectives, the second category concerns the methods they use to mitigate the risks to those objectives. Specifically, in this category we compare the performance measuring and monitoring systems used in the private sector to those integrated into the RCI PAM process, as well as the effective use of independent 3rd parties to augment and enhance those systems. As before, our intent was to analyze the extent to which the RCI program has integrated industry-standard practices and how efficiently the practices have been employed. Figure 6.3 reflects the comparison between RCI and private sector practices within these areas.

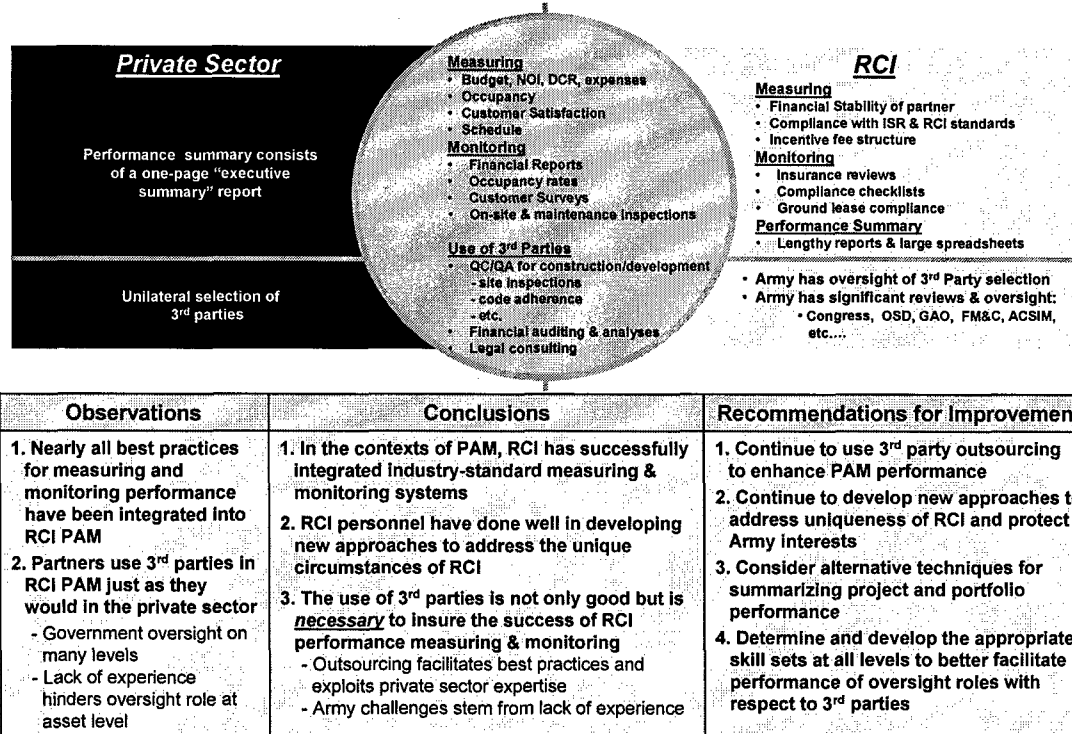


Figure 6.3 Performance Measuring and Monitoring Systems & the Use of Independent 3rd Parties

6.5.2.1 Observation, Conclusion, and Recommendation

Observation. Again, there is significant alignment between the two entities in this category, as well, with some slight variations between as the following interview comments indicate:

- “[It has been] basically easy to do [incorporate best practices into RCI], as these businesses are fairly well-known and established. Moreover, it has been easy to get people involved, and they bring their best management practices to the project, as well.”
- “The key aspect of this is ‘goal congruence.’ We and the Army essentially have this with respect to the homes and communities we build and manage.”
- “It compares fairly well, in my opinion. DA has struck a good balance between control and flexibility. A point to consider, however... The experience levels at each installation are unique. So, the level of DA intervention or control should, to some degree, be determined by that experience level (less experience – more control and vice versa). Because of this, DA should be wary about applying a set or common standard across installations. In the private sector, we set project-specific “bars” that allows us to provide a great deal of flexibility where it can be handled and to provide more control where it is needed.”
- “Incentive fees (while NOT a BMP in the private sector) do provide best value for the Army because the metrics are tied to money, which means that the Army is getting something the market is not (however, this creates socialism)”

- “The RCI program requires an altogether different look at the customers and the services provided to them. In the outside, no one is watching us to ensure that we provide a certain level of service. If someone wants to continue to pay rent for what they consider (or someone else) to be substandard service, that is their choice. In this program, however, we have the Pentagon, DA, installations, and residents all watching over our operation to ensure that we meet a specific level of service. In conjunction with this, the services we provide are incentives-based and in large part are determined by the customer.”

Conclusion. Our findings led us to conclude three key points. First, the RCI program has done very well integrating nearly all systems for measuring and monitoring performance at the portfolio and asset levels into its PAM processes. This includes the development of very creative systems – such as incentive fee structures never used in the private sector – that address the unique aspects of the RCI program and serve to protect Army interests. Second, we observed that private sector partners to employ 3rd parties in their RCI projects just as they would in the private sector. This is of significant importance, as our observations have led us to conclude that the use of such parties is not only good for the overall program but is critically necessary at this point to ensure the continued maturation and success of the program. The third point focuses on this criticality. Here, we note that the foremost challenge to implementing best practices in this category stems from a general lack of experience and skill sets on the Army-side of the partnership. This, in turn, hinders the oversight roles expected of personnel at both the portfolio and asset levels. In short, one cannot oversee what one does not understand. Outsourcing expertise to third parties helps to overcome that challenge by exploiting private sector skill sets and experience that are not yet core competencies in the Army.

Recommendation. Pursuant to the conclusions, our recommendations focus on the continued use of 3rd parties in the RCI PAM process as well as reinvigorated efforts to determine and develop the appropriate skill sets at all levels to better facilitate performance of oversight roles.

The key differences between the practices used in this category are 1) that the RCI PAM program is a government endeavor, which creates unique circumstances and requirements and induces the involvement of many government organizations and agencies for the purposes of review and oversight and 2) the techniques used for clearly and succinctly summarizing project and portfolio performance over time. The first of these differences is a positive one such that it serves to protect the Army’s (and, hence, the government’s) interests in the partnership. The second is a matter of technique and plays more to the preference of the decision-makers leading the program. Our observations of the measuring and monitoring techniques currently used in RCI are simply that, while they are exceptionally thorough and informative, they are also very long and complex and do not adequately and clearly articulate performance among specific projects or across the portfolio. There other techniques in use in the private sector that could enhance the current systems. As an added recommendation, we suggest consideration of some of these methods.

As an example, during one interview with a corporate office, the interviewee presented us with a single, one-chart executive summary that consisted of a graph pitting one critical metric as a function of another. Using this method and partitioning the graph area into quadrants, this decision-maker could clearly and quickly see the overall performance of the portfolio relative to the company’s objectives, as well as how individual projects contributed (or failed to contribute)

to those objectives. For the purposes of our study and lending weight to our recommendation, we developed an example using RCI data for a sampling of projects shown in Figure 6.4, which consists of a four-quarter plot of NOI (y-axis) as a function of Occupancy (x-axis) for the installations shown.

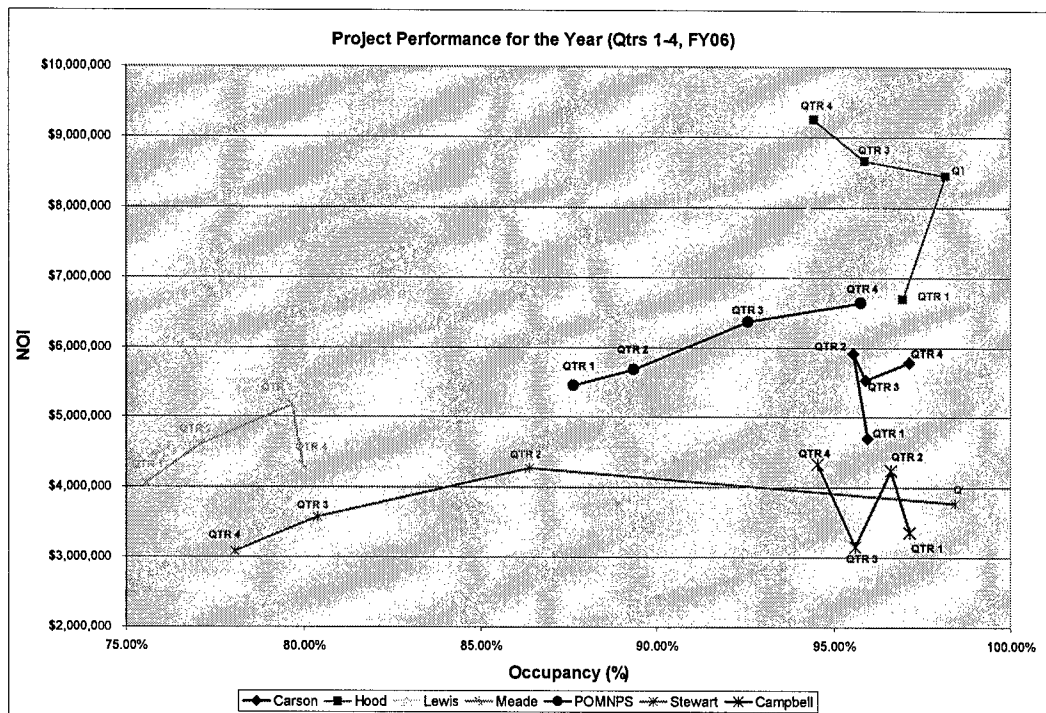


Figure 6.4 Organizational Structure and Delineation of Duties

We used NOI and occupancy as the primary metrics, as they most reflect the overarching interests of the partnership: a positive net operating income generated by a high occupancy rate, which translates to soldier satisfaction with the quality of living being provided. Accordingly, for the purposes of evaluation, high performing projects will have high occupancy and a high NOI.

The usefulness of this technique is reflected in the fact that it clearly indicates project performance within the contexts of the portfolio and over time. Moreover, since we know that higher is better on both axes, we can quickly deduce which projects are underperforming. Thus, a decision-maker seeing this chart knows immediately that, while most projects are performing well, two are not. As such, what is nice about this graph is that 1) it provides (at least to some degree) very good situational awareness about project performance, 2) it shows a clear trend in performance, and 3) allows one to develop some analytical conclusions about what is causing the changes in NOI, occupancy, or both, and perhaps why.

Chapter 7. Education and Training

7.0 Overview

This chapter focuses on the ability of RCI PAM program personnel to perform those responsibilities outlined in the RCI PAM Program Handbook. The analysis focuses on the proficiency of asset level and portfolio level management team members to fulfill their roles and responsibilities. The results of the analysis show similarities, differences, and opportunities for improvements in the RCI PAM education and training program. The structure of the analysis is presented followed by a discussion of the specific method of analysis used to arrive at the conclusions and recommendations that are to be discussed.

7.1 Structure for Task 4

The questions supporting this task focus on the strength of the education and training program to provide the required skills to enable asset level and portfolio level team members to effectively fulfill their roles and responsibilities. The following questions were specifically defined to determine the effectiveness of the program and potential enhancements across all phases of the RCI PAM program.

Portfolio Management Team

1. Who are the members of the portfolio management team?
2. What are the functions of the portfolio management team as described in the ASA(I&E) RCI PAM Handbook?
3. Who is responsible for performing each function?
4. For each function, what are the areas that require training?
5. Is the training adequate for the function each individual has to perform?

Asset Management Team

1. Who are the members of the asset management team?
2. What are the functions of the asset management team as described in the ASA(I&E) RCI PAM Handbook?
3. Who is responsible for performing each function?
4. For each function, what are the areas that require training?
5. Is the training adequate for the function each individual has to perform?
6. What is the mechanism for the asset manager to obtain assistance from the portfolio manager in the event the former requires assistance?
7. How effective is that mechanism? Are any changes needed to improve it?

7.2 Data Methodology

The data collection efforts for this task continued with the development of a list of interviewees. The development methodology used was similar to that defined in previous chapters; however the set of interviewees for this task were selected in relation to the task objective. Primary emphasis focused on portfolio level and asset level management personnel in order to identify areas that require training. Key members of the project partner at each installation visited were also interviewed in an attempt to identify education and training best practices in property management that could potentially be adopted and integrated into the RCI PAM education and training program. Personnel from the Military Housing and Lodging Institute (MHLI), the training arm for the RCI PAM program, were also interviewed. Approximately fifty-five individuals participated in this part of the study.

To evaluate this task, we divided it into three areas. First, we assessed skills that were lacking. Second, we assessed the adequacy of training provided to program personnel. Third, we identified potential enhancements to the RCI PAM education and training program. The participants' responses supported each area and allowed us to develop observations of the current program, draw conclusions, and finally develop recommendations on how the education and training program could be enhanced. Partner team members were interviewed on training received and the ability of that training to equip them to fulfill their roles and responsibilities. Their responses have been summarized as best practices that may be integrated as enhancements to the RCI PAM education and training program. MHLI was interviewed on the nature, background, and basis of training currently provided to RCI PAM program personnel. This information was used to identify the content and type training provided to RCI. This information has been summarized as observations, conclusions, and recommendations and is presented in Section 7.4. Interview responses that support observations in each category are provided.

7.3 Top-Level Summary of Results

Education and training is a very strong element of the RCI PAM program; however the program is weak in the type training provided. The current program focuses primarily on "What is RCI" and less on "RCI competencies." The observations, conclusions, and recommendations that will be discussed provide additional insight and more importantly what measures may be implemented that can enhance the RCI PAM education and training program. In addition to the observations, conclusions, and recommendations that have been stated, this study will recommend integration of specific best practices into the education and training program. For example, in industry, property management personnel are required to obtain and maintain certification in specific areas. Requiring DoD personnel who fill key positions to obtain and maintain certification in property management and financial management would strengthen proficiency in these areas.

While it may be possible to obtain the skills commensurate to that required and complementary to that of the project partner team members JLL or a JLL equivalent entity should be retained to provide those capabilities currently lacking within DoD.

7.4 Education and Training Requirements

7.4.1 Observations, Conclusions, and Recommendations

Observation 1. Asset level team members expressed a need for education and training in financial analysis, contract law, property management, and private venture partnerships.

Observation 2. Army is unaware of the skills and training required for asset level and portfolio level management personnel in areas noted below.

Financial Analysis - Understanding contractors' profits and funding; potential misappropriations; incentive structures and assessments to the PAM process; what to look for regarding management and financial aspects

- "The folks on the ground seem competent; however they need to understand the financial structure of the deal and business practices in general. Individuals should take advantage of training opportunities by industry e.g., Apartment Managers Certification."
- "The Army has got to get smart in financial analysis. How the developer makes money is not understood. The old way of appropriating money is gone. What they need to know is how bankers give developers money; all the financial constructs that JLL understands. Our folks need to know this as well. We need to be trained on the private perspective versus the congressional way of appropriating money. If we are going to be partners, then we need the same background as our partners. We also need to be financially savvy versus appropriation experts. The role of employees on the ground is different. It's about culture, which takes time to change. Most of the people on the ground came up under the old system."
- "In PAM, they need a financial person on staff. Originally thought that the partner would handle all the financials and that the command did not need to be involved. From the oversight perspective, we need to have someone who can look at the partner's numbers and understand what they mean."
- "... you have to understand financial performance. They should understand how much money developers are making and how incentives are structured."
- "It would be nice to learn and get visibility on contractors' profits and funding. It would be kind of nice for me to know whether or not funds are being diverted from funds going to our fire departments (or police departments). But our trustees tell us this isn't possible, but I know that this is very possible."
- "Someone in Army should have a financial background equivalent to that of JLL."
- "I do not have the expertise or time to audit. I have a finance background not an accounting background. JLL fulfills this responsibility and role for us."
- "We look at these figures on a daily basis, and if we don't understand them, there is a problem."
- "The normal government person doesn't have the training in the finance aspect."
- "From the oversight perspective, we need to have someone who can look at the partner's numbers and understand what they mean."
- "Is there anyone in the Army besides JLL that has their kind of financial background? Should be."
- "Do we need to be real estate agents – absolutely not!"

- "It would be good for the Army to have someone from the Army side to review deals. I think the portfolio manager must be very diversified in understanding housing and in understanding financial deals."

Legal Governance - Understanding land-lease agreements and real estate, LLCs, legal processes, and contract law

- "... there are no precedents for government regulations with regards to the LLC partnership."
- "Most SJAs will not have an awful lot of experience in contract law."
- "... understanding land-lease agreements and how that is generated; knowing the genesis of the project to where it is now. All these facets would have been helpful of getting some formal education on it."

Property Management

- "Property management skills and knowledge need to be on par with the partner."
- "Folks on the ground (Army side) need to have training in property management, financial analysis, and other aspects of PAM so that they can fully perform their oversight role. To this point, training in these areas has been totally inadequate as everything has been learned on the fly, but is getting noticeably better. A key point to recognize is that the training must be timely (i.e., early enough in the process so that it can be applied.) Ideally, we should get training before the CDMP begins and then again during the transition period."
- "Financial management (complex financial dealings), University of Maryland training, and asset management training required to better understand managing a project of this magnitude."

Private Venture Partnerships

- "Process knowledge and knowledge of how private venture partnerships operate."
- "If we are going to be partners, then we need the same background as our partners."
- "There is a huge differential between the LLC partner & the government partner PAM team."
- "Partner has MBAs."
- "I don't know what the right level is. The people we are dealing with have extensive backgrounds in this and we need people with a similar understanding and background."
- "The housing career field is made up of non-appropriated fund individuals that have worked in billeting. They didn't come with education but they moved up in the system. In many cases, this is what you have out there. The housing career field is not a highly educated and skilled group of people."
- "Some are college graduates and many do not have experience. Most bring tools they learned in previous jobs, but a lot do not have business experience. You are relying on the commanding general's experience. They all have reputation of trust and respect, but they do not all have the proper tools to adequately perform RCI duties."
- "Both sides need to be better educated on cultural differences so that the project and ultimately the soldier does not suffer."
- "Partner needs training on items required by the asset team."

- “Not enough attention is focused on the cultural intricacies of the Army and the partner.”
- “This type training would help the relationship between the partner and the Army and facilitate a better long-term relationship.”
- “We make assumptions that they know everything about this business, but the gulf between how the military and civilians do business is huge – they need to figure out how the military customer thinks, expectations, demands, standards, etc.”
- “Everyone requires training regardless whether they were formerly in housing or not.”

Conclusion 1. Asset level and portfolio level team members require education and training specific to the role they are expected to fulfill and the responsibilities they are expected to perform.

Conclusion2. Asset level and portfolio level team members require similar skills as partner team members.

Conclusion 3. Army housing personnel do not presently have required background to fulfill roles and responsibilities.

Recommendation. Provide education and training to asset level and portfolio level team members in financial analysis, CDMP negotiation process, contract law, property management, private venture partnerships.

7.4.2 Summary of Observations, Conclusions, and Recommendations

A visual summary of observations, conclusions, and recommendations is shown in Figure 7.1.

Training Requirements

- Real Estate Fundamentals
- Finance & Accounting Practices
- Property Management
- Operations & Maintenance
- Construction & Development
- Legal & Governance

- MHLI
- Lessons Learned Conference
- JLL
- PHMA
- University of Maryland
- SJA School
- Pre-Command Course

Observations	Conclusions	Recommendations
<ul style="list-style-type: none"> • Asset team members expressed a need for education and training in: <ul style="list-style-type: none"> - Financial Analysis (21 of 55) - One or more RCI phases (15 of 55) - Contract Law (14 of 55) - Property Management (7 of 55) - Private Venture Partnerships (7 of 55) <p><i>"The housing career field is not a highly educated and skilled group of people" (Army Senior Leader)</i></p> <p><i>"We look at these figures on a daily basis, and if we don't understand them, there is a problem." (Monterey)</i></p>	<ul style="list-style-type: none"> • Multiple skill sets are required to effectively perform roles • Asset team members require similar skills as partners • Army housing personnel do not have required background 	<ul style="list-style-type: none"> • Provide training to asset team members primarily in: <ul style="list-style-type: none"> - Financial Analysis - CDMP Negotiation process - Contract Law - Property Management - Private Venture Partnerships

Figure 7.1 Summary of Observations, Conclusions, and Recommendations

7.5 Adequacy of Training Provided

7.5.1 Observations, Conclusions, and Recommendations

Observation 1. Forty percent of asset level team members interviewed indicated that no prior training had been received.

- "We received no training prior to any phases of the process & instead learned everything "on the fly"."
- "To this point, training in property management, financial analysis, and other aspects of PAM has been learned on the fly, but it is getting noticeably better." "Since December 2003, continue to learn OJT."
- "There is nothing offered or potential training made available."
- "Overall, I believe we play a bit of catch-up. I think our partners bring to the table more skills and training that by nature we don't have in our backgrounds. Training has a ways to go. Early on, learning as you go, we came up short. We were relying too much on the partner. Having JLL allowed some consistency and help in that area. The folks on the ground are still unprepared for the avalanche of admin control that is expected of them and that the project requires; despite the training provided."
- "When I first came on, I was hired to look at the finances, but there was absolutely no training and my job description did not match."

- "There is not really anything that is out there, so you hope that there is someone experienced in contract law."
- "Initially OJT."
- "Everyone requires training regardless whether they were formerly in housing office of not. They simply don't have the type of experience."
- "There is no training on how I should be using the information coming through the PAM process that helps me manage my assets."
- "I didn't receive any formal training for this job and because this was a huge contract, it would have been nice to have an orientation course that showed me these are all the intricacies related to finance. I hit the ground running. It would have been better if there was training at the start."
- "Installations who went through the CDMP after us (such as xxx, xxx, xxx, etc.) would routinely call us for information and advice as to how to deal with certain challenges they faced. These folks would also complain about the lack of training they received beforehand to possibly foresee and prevent, or at the least, understand how to deal with them."

Observation 2. Twenty-four percent of asset level team members indicated training received is adequate and continues to evolve.

- "The housing conference we just got (PHMA) was sufficient. The greatest thing that I got awareness on was the legal relationship issue. Bottom line that I learned – there is not legal authority. Once there is a contract and a minority limited partner relationship, your legal control is gone."
- "The RCI PAM program is enhanced by the lessons learned conference. DAR RCI gets people involved in conference that teaches industry standards and what businesses are doing."
- "The current DA RCI training and workshops are very helpful and effective. They provide very good training and information and do well to enhance understanding."
- "I think that what I got at the school house was adequate. It gave us enough background information and who to contact if issues arose."
- "Training provided by University of Maryland in private venture partnership was adequate."
- "Administrative Contracting Officer course was adequate."
- "COE real estate training was beneficial."
- "JLL training in contract monitoring was beneficial."
- "Education opportunities are being developed and getting better."
- "Training is good; however we need to keep up with the things as they change."
- "Keep those training conferences."
- "Early on, it was inadequate but it is getting much better. The classes offered by DA are very useful; however they need to consider moving the training (e.g., using a mobile team to come to the installation) as we don't have the funds to send that many people to the east coast for training."
- "Training is clearly getting better and better."
- "When we first started, there was no training for RCI. It was trial and error. Since then and based on our lessons learned, fortunately the Army has developed training for us."

- "RCI is getting better at the training we need compared to the way it was six years ago."
- "More educational programs are being offered and should be taken advantage of."
- "To this point, training in property management, financial analysis, and other aspects of PAM has been learned on the fly, but it is getting noticeable better."

Observation 3. Thirty-six percent of asset level team members indicated training received is inadequate and untimely.

- "Training is the weakest link in the RCI program, as virtually all of it is done "on the fly." The University of Maryland training is worthless with respect to RCI. It provides good-to-know stuff with respect to real estate, but that is incomplete because RCI is its own animal. We need to look at restructuring training to focus on 1) CDMP structure and contents, 2) financial management and analysis, and 3) property management. All of these should be developed in a way that reflects the RCI program in terms of its unique process issues, nuances, and challenges. One of the important aspects of this training is that it must begin several months before beginning the CDMP."
- "University of Maryland training is good but clearly not adequate."
- "If Mark Connor had not been in DC, we would have been floundering."
- "I thought the PAM training was superficial."
- "Post CDMP training not as good."
- "JLL provided explanations but not training."
- "The training prior to the process was inadequate and so they were essentially learning the process "on the fly"."
- "Knowledge of the process is very weak at the installation level and the training provided to build that knowledge base is very inadequate and not timely enough to assist the installation asset management teams through the process (CDMP, transition, and then lifecycle management)."
- "Currently training is inadequate as there is no program to train up SJA's on these types of ventures. It has been all OJT and obtaining advice/information from people who know the ropes."
- "We did two and a half days of training with the University of Maryland here; it was good training but clearly not adequate."
- "We replaced training provided by University of Maryland. Feedback we got from folks receiving the training indicated that we should provide the training instead."
- "Training also has to be timely. You ought to be getting training sequenced as the project occurs prior to a person entering that phase of the project. Training has to precede key RCI milestones."
- "A point of inadequacy, though, is that the training must occur early in the process. Most of what we now know we learned on the fly and by making extensive phone calls to the other installations. Early on training would have been tremendously helpful."
- "The training has gotten much better but it needs to occur much earlier in the process. We should have received the RCI 100 training prior to the CDMP even starting."

Conclusion 1. Training is not provided to all asset level team members.

Conclusion 2. Education and training program continues to evolve .

Conclusion 3. Tardiness of training minimizes best value.

Conclusion 4. Asset team members are not prepared for the administration and management oversight that the project requires.

Conclusion 5. Education and training program requires revision.

Conclusion 6. Asset level and portfolio level team members can only view product without focus on long-term effects.

Conclusion 7. JLL's financial analysis and management expertise is currently a vital asset.

Recommendation 1. Provide education and training to all RCI PAM DoD related personnel.

Recommendation 2. Integrate industry best practices into education and training program and ensure program keeps pace with industry standards.

Recommendation 3. Program training to occur in consonance with RCI project phases.

Recommendation 4. Develop education and training program that prepares portfolio level and asset level team members to effectively perform RCI PAM oversight roles.

7.5.2 Summary of Observations, Conclusions, and Recommendations

A visual summary of observations, conclusions, and recommendations is shown in Figure 7.2.

Adequacy of Provided Training		
Observations	Conclusions	Recommendations
No prior training received (22 of 55) <i>"Since December 2003, continue to learn OJT." (Ft. Belvoir)</i>	Training is not provided to everyone	Provide training to all personnel
Training received is adequate (13 of 55) <i>"RCI is getting better at the training we need compared to the way it was six years ago." (Ft. Carson)</i>	Education & training program continues to evolve	Ensure education & training program keeps pace with industry standards
Training received is inadequate (20 of 55) <i>"Training is the weakest link in the RCI program, as virtually all of it is done on the fly." (Ft. Leonard Wood)</i> <i>"Knowledge of the process is very weak at the installation level and the training provided to build that knowledge base is very inadequate and not timely enough to assist the installation asset management teams through the process (DCMP, transition, and then lifecycle management)." (Garrison Commander)</i>	1. Tardiness of training minimizes best value 2. Asset team members are not prepared for the administration & management oversight that the project requires 3. Education & training program requires revision 4. JLL's financial analysis and management expertise is currently a vital asset	1. Program training to occur in consonance with project phases 2. Develop education & training program that prepares portfolio & asset team members to effectively perform RCI oversight roles

Figure 7.2 Summary of Observations, Conclusions, and Recommendations

7.6 Opportunities for Improvement

7.6.1 Observations, Conclusions, and Recommendations

Observation 1. Interviews identified additional opportunities to improve education and training.

Observation 2. Education and training program currently focuses on RCI pre-transition phases.

Observation 3. RCI courses are not benchmarked against industry standards.

Observation 4. RCI courses do not produce certification.

- “We don’t have folks to do an independent review or audit of the financial reports to question line items. At the DA level, the folks don’t have the expertise either. We are looking at the product but not so much long-term financial approach. We don’t have the expertise at the installation level to see long-term but we look short term. No one has that expertise.”
- In CDMP, we had training by RCI. We got about 4-5 days and we had all our directorates to attend that same training. That was good because everyone understood “how” the negotiation process would work.”
- “I think we need a short RCI course in Charlottesville for the attorneys.”
- “Really, could I have done even better had I had some additional training – accounting courses, looking at pro formas? Absolutely!”
- “Because we are not as well trained/educated as we should have been prior to starting, we tend to default to the partner for many things.”
- “Ideally, we should get training before the CDMP begins and then again during the transition period.”
- “Comptroller and OMB are behind in their knowledge of how the process works.”
- “Need a short RCI course in the JAG school.”
- “No precedent for government regulations with regard to LLC.”
- “I didn’t receive any formal training for this job, and because this was a huge contract, it would have been nice to have an orientation course that showed me these are all the intricacies related to finance.”
- “Everyone requires training regardless whether they were formerly in housing office or not. They simply don’t have the type of expertise.”
- “This is still brand new to everyone and the learning curve remains very high. Although some of our people have had some experience with finances and project management, all of us have had to learn the process “on the fly.” Because we are not as well trained/educated as we should have been prior to starting, we tend to default to the partner for many things.”
- “Training is the key to assuring the on post team has as much knowledge as possible to get them on par with a partner who does this for a living and who has also done it for a long time. They are the professionals. They have the Harvard MBAs. They are currently being paired with former housing admin folks. This is a significant transition from government housing to running privatized housing.”
- “CDMP training is required. More PAM training is required. Financial training is required.”
- “What is housing office supposed to do on a daily basis should be trained. Most of the people just need to know what RCI is.”

- “It would be valuable for the Army to put together a type-RCI package for commanders & operations guys receiving an RCI type project.”

Conclusion 1. Education and training program does not provide the required skill sets to effectively perform RCI roles and responsibilities.

Conclusion 2. Portfolio level and asset level team members are reliant upon consultants and partners.

Conclusion 3. Education and training program focuses on “What is RCI?” but not “Core competencies.”

Conclusion 4. Education and training program does not reflect best practices.

Recommendation 1. Institute a formal education and training certification program in

- Real Estate
- Financial Analysis
- Asset management and commercial portfolio management

Recommendation 2. Incorporate Institute of Real Estate Management (IREM), Professional Housing Management Association (PHMA), and National Apartment Association (NAA) education and training courses into education and training program.

- Certified Defense Privatization Manager Course (CDPM)
- Certified Apartment Manager Course (CAM)
- Accredited Residential Manager Course (ARM)
- National Apartment Leasing Professional Course (NALP)
- Certified Apartment Property Supervisor (CAPS)
- Fair Market Housing Training

Recommendation 3. Add education and training as a portfolio measurement item.

Recommendation 4. Lobby for an abbreviated contract law course to the JAG school’s curriculum.

7.6.2 Summary of Observations, Conclusions, and Recommendations

A visual summary of observations, conclusions, and recommendations is shown in Figure 7.3.

Opportunities for Improvements

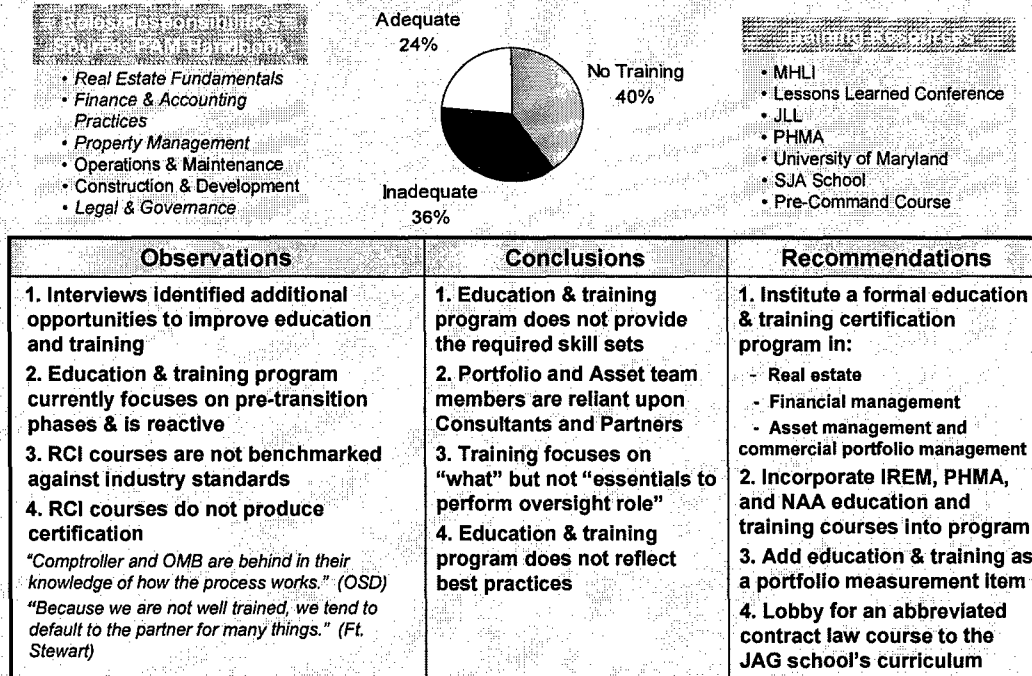


Figure 7.3 Summary of Observations, Conclusions, and Recommendations

Report Summary

At the request of Mr. Geoffrey Prosch, the Dept of Systems Engineering, USMA conducted a comprehensive independent study of the RCI PAM program during the period May 2005 to February 2006 for the purposes of assessing the current health of the program and to ascertain whether the appropriate organizational structures and processes are in-place to successfully address challenges to the program well into the foreseeable future. The study was motivated by concerns on both counts expressed by internal Army agencies unaffiliated directly with the RCI PAM program.

The methodology employed by the study team adhered to best practices in systems engineering and analysis within the scope of this study. This included amongst other techniques, in-depth stakeholder interviews across a wide array of installations and agencies associated with RCI PAM, subsequent data analysis against and comparison with similar industry best practices in the areas of program and financial management, a multi-level examination for potential conflicts of interest, and the efficacy of training and education programs with an eye towards sustaining the program for the long term. The study identified various strengths and shortcomings, as well as identifying opportunities for enhancements that could add a measure of robustness to the success that the program is currently experiencing.

The results reveal the RCI PAM program to be an innovative, unique venture that is setting a new standard of best practices in community development and management. The RCI PAM program reflects a positive shift in the Army's strategy toward managing family housing that is achieving its' objective of providing quality homes to soldiers and their families by leveraging the core competencies of both government and industry through the means of Limited Liability Corporation structures at each installation. Maintaining this success requires management oversight that is ingrained with in-depth knowledge of both current industry trends and detailed understanding of the evolution of practices and policies that structured current operating conditions at each installation.

The success that the RCI PAM program enjoys is due in a very large part to the centralized and talented government management oversight that is currently in-place. Under this structure, program managers have maximized the flow of knowledge between all government elements, thereby facilitating informed decision-making at all contact points in the system with the numerous civilian partner agencies. The cross-functional continuity afforded by this organizational structure goes a long way towards guaranteeing that the government will achieve best value amidst continued program evolution, changes in participating civilian companies, decentralized incentive fee review and CDMP re-negotiations. Significant changes to this management structure should only be undertaken, if at all, after a careful and cautious examination of their impact on the host of core success elements illuminated in this study.

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- ¹ Skyttner, L. 2001. *General Systems Theory*, World Scientific Press, Singapore.
- ² *Readings for Systems Engineering and Engineering Management*, Dept of Systems Engineering, USMA (eds), Thomson Custom Publishing, Mason, Ohio, 2004.
- ³ *Federal Acquisition Regulations*, March 2005, including all Federal Acquisition Circulars 2001 – 27.
- ⁴ 18 U.S.C. §208
- ⁵ 5 C.F.R. part 2635, Subpart F
- ⁶ 41 U.S.C. §423(c)
- ⁷ *Conflict of Interest and the Special Government Employee*, a summary of ethical requirements applicable to SGEs, Office of Government Ethics, Washington, D.C.
- ⁸ B. Manning, *Federal Conflict of Interest Law* 30 (1964).
- ⁹ For example, grass cutting, asset management, photovoltaic initiatives, salary loads, workers compensation; contractor controlled insurance programs, component estimates, subcontractor bonds, among others.
- ¹⁰ Residential Communities Initiative (RCI) – Portfolio and Asset Management (PAM) Operating Handbook, Version 2.0, Department of the Army, DASA (P&P) – RCI, dated 25 January 2005.
- ¹¹ *Federal Acquisition Regulations*, Volume 1, page 2.1-2.
- ¹² S and P considered the Air Force model, which is more like the traditional military construction contract with little flexibility, to be inferior to the Army's initiative.

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14. ABSTRACT <p>In April 2005, the Acting Assistant Secretary of the Army for Installations and Environment (ASA(I&E)), Mr. Geoffrey Prosch, asked the United States Military Academy (USMA) to conduct a functional evaluation of the Residential Communities Initiative (RCI) Portfolio and Asset Management (PAM) program and provide an independent assessment of the adequacy of the Army's RCI PAM program in achieving its intended objectives across all domains and all phases of the program. The study focused on five areas of interest.</p> <p>The results of the assessment of the RCI PAM program and its' processes in the context of 1) Conflict of Interest, 2) Best Value, 3) Financial Analysis, 4) Best Practices, and 5) Education and Training are presented in this report.</p>					
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